

OUTLINES OF POLITICAL SCIENCE

GEORGE GUNTON *and* HAYES ROBBINS

an V
13160

CORNELL
UNIVERSITY
LIBRARY



FROM

Mrs. L. G. Roysten

Cornell University Library
arV13160

Outlines of political science,



3 1924 031 270 527
olin,anx



Cornell University
Library

The original of this book is in
the Cornell University Library.

There are no known copyright restrictions in
the United States on the use of the text.

<http://www.archive.org/details/cu31924031270527>

OUTLINES OF POLITICAL SCIENCE

BY

GEORGE GUNTON

AUTHOR OF "PRINCIPLES OF SOCIAL ECONOMICS," "TRUSTS
AND THE PUBLIC," "WEALTH AND PROGRESS," "THE UN-
ECONOMIC BASIS OF SOCIALISM," "ECONOMIC HERESIES OF
HENRY GEORGE," "THE EIGHT-HOUR MOVEMENT," ETC.

AND

HAYES ROBBINS

DEAN OF THE INSTITUTE OF SOCIAL ECONOMICS
JOINT AUTHOR OF "OUTLINES OF SOCIAL ECONOMICS."



NEW YORK

D. APPLETON AND COMPANY

1901
KC

CORNELL
UNIVERSITY
LIBRARY

Copyright, 1901 by
GEORGE GUNTON AND HAYES ROBBINS

PREFACE.

Political science, in its most important aspect, is social economics practically applied. Strictly speaking, political science deals with human society in its various forms of political organization, and includes, therefore, the nature and practical methods of government. The importance of this phase of the subject should not be underestimated; but if mere government in the abstract, or its machinery and methods, were all there is of political science, the subject would have little interest except to the special student and little usefulness in practical affairs. The theoretical and mechanical side of political science is to the larger side, which we have called "social economics practically applied," what the skeleton is to the living, breathing, acting body. Political science legitimately includes the study of what the state, representing the people, can and should do to promote the general welfare; in what ways, if any, it can modify, direct or stimulate the action of economic forces wherever the natural laws governing those forces do not of themselves produce the results shown by experience to be wholesome, helpful and progressive.

This side of political science is what binds it close at every point to practical human life; this is what makes it of immediate and serious interest to every member, rich or poor, of organized society. It affects the interests of the day laborer and of the millionaire employer, of land-

lord and tenant, of the professional man and the merchant, of the highest public official and the most inconspicuous private citizen. To any or all of these the state can be either a worthless, hindering obstacle or a strong, cooperating helper, securing, protecting and regulating, by the joint action of all, those general conditions and opportunities which the single individual cannot control. Whether the state is thus a curse or a blessing depends upon how its action is guided; whether wise and enlightened statesmanship, or fanatical demagoguery, or headstrong personal caprice is at the helm. Under a despotism, all this hangs upon the accidental quality of the despot; but under democracy the character of the government depends upon the character and wisdom of the people. Where the people rule, they will become their own worst enemies unless they know how to rule wisely and well. If the people are to be the government, they must know what things the government should and can do and where it should not interfere; in other words, if they are to exercise the political power, they must understand political science.

This is especially important for young citizens, and nowhere in the world is it more essential than here in the United States to-day. This country is facing and will be forced to solve, for itself and for all countries, certain problems in government and the relation of government to industrial civilization which are vital to human progress. Upon our success or failure hangs, very largely, the success or failure of democratic experiments and growth of democratic tendencies throughout the world.

The present volume has been written with the special view of making clear and obvious, to young citizens especially, the fundamental principles of government and the lines of practical action which government may and

ought to undertake. While careful to avoid any special pleading or bias, it does not hesitate to suggest such broad lines of helpful constructive policy as seem most thoroughly justified by experience and reason. It would not be true to the spirit of its own conception of political science if it were content to leave the reader floundering among a mass of contradictions and negations, with no suggestion of any general controlling scientific principles. We cannot sympathize with that conception of the field of education which demands merely the stating of problems so vital as these, in all their menacing complexity, and forbids any effort to shed the light of human experience upon their solution. The true instructor should endeavor to perform this difficult service; of course with scrupulous care, free from any local, partisan or personal coloring.

Like its predecessor, "Outlines of Social Economics," this book is especially adapted for study clubs, literary and debating societies and high schools. The method of presentation enables the reader to follow the general trunk-line of the subject, grasping the vital points, with no break in the connection, in a comparatively short time, while also permitting such broader research and thorough verification as may be desired, by means of the extensive references to selected collateral readings in a wide range of eminent authorities on history, economics and political science. These references, together with extracts from some of the best of the readings suggested, appear at the end of each chapter, and it is believed will greatly increase the practical usefulness of the book, both for the reader with limited time and for the thorough student.

CONTENTS

CHAPTER	PAGE
I. Theory of National Development . .	I
II. Nature, Powers and Duties of Government	9
III. From Despotism to Free Government	18
IV. From Despotism to Free Government (<i>Continued</i>)	25
V. Statesmanship and Politics .	35
VI. Statesmanship and Politics (<i>Con.</i>) .	41
VII. Foreign Policy	50
VIII. Protection	58
IX. Protection (<i>Continued</i>)	69
X. Free Trade	79
XI. War and Arbitration	90
XII. Taxation	96
XIII. Taxation (<i>Continued</i>)	103
XIV. Money	114
XV. Money (<i>Continued</i>)	125
XVI. Banking	137
XVII. Banking (<i>Continued</i>)	146
XVIII. Banking (<i>Continued</i>)	157
XIX. The State and Capital	164
XX. The State and Labor	175
XXI. The State and Labor (<i>Continued</i>) .	185
XXII. Municipal Government	195
XXIII. Municipal Government (<i>Continued</i>) .	202
XXIV. Municipal Government (<i>Continued</i>) .	212

CHAPTER I.

THEORY OF NATIONAL DEVELOPMENT.

1. Nations and Governments. Political science grows out of the fact of national development. That is, the development of nations as separate groups of human beings is what makes governments possible, and political science deals with the formation and kinds of governments, what they may properly do for human welfare and what they ought to leave to individual judgment and responsibility.

National development is often spoken of as if it meant merely the development of a country's physical resources ; that is, tilling the soil, converting forests into buildings, ships and furniture and digging useful minerals out of the earth. This is a mistaken idea and leads to many mistaken theories and policies. A nation does not consist of physical resources but of people, of human beings, living in great general groups and bound together by ties either of common origin, language, customs or beliefs, or of all of these. National development, therefore, is the development of the character and civilization of the people.

2. Effect of Occupations on National Character. Although national development has reference to people rather than industries, the civilization of the people is largely determined by the kind of occupations in which they are engaged. If their industries are chiefly of the sort that compel them to live apart, with little variety in

their experiences and few opportunities for education and culture, the people are likely to be narrow and unprogressive. There are instances where people who were already highly civilized have taken up these occupations and carried their civilization with them, as in the larger part of the agricultural industry here in the United States; but where a country is given over entirely or even chiefly to a simple, unorganized, crude kind of industries, producing raw materials only and with little development, actual or in promise, of manufactures, cities and railroads, there is sure to be relative poverty, superstition, despotic government and general backwardness in civilization. China, India and Russia are examples of this.

On the other hand, if the industries are varied and highly developed, including a large proportion of manufactures, mercantile and artistic occupations, mechanical trades, commerce and transportation, well distributed throughout the country, side by side with the agricultural and other raw-material producing industries, there will be an abundance of varied, active life, frequent and closer contact of people both in business and social relations, new and broadening experiences, growth of progressive ideas, and general progress of the whole community in wealth, intelligence and moral character. Variety of experiences and relations with each other is the greatest educating and civilizing force among men. Without it little progress is possible; with it, a nation steadily moves towards higher and higher levels of prosperity and enlightenment. It is clear, then, how very largely the character and civilization of a people depend upon whether their occupations or industries are few and simple or many, varied and highly developed. The reason for this is equally clear, and it is, simply, because the common, regular experiences of every-day life, connected with the

efforts to "get a living," are the influences that have the largest share in determining people's ideas and character.

3. Progress Through Groups. If these civilizing social influences are to work at all, there must be closely organized association between people, in groups. All progress has come through different kinds of group organization. In proportion as people can be kept in isolation, their experiences are few and monotonous; in proportion as they are brought together in groups their experiences become varied and inspire action and progress. This association in groups, as we have seen, is chiefly determined by the character of the people's industries. Agriculture, mining, forestry and fishing require but little association and hence little group development. Manufacture and trade, on the other hand, do of necessity bring people together in groups. Their very existence demands constant intercourse, trade relations and dependence of people upon each other. Variety of industries also gives rise to variety of interests, and this leads directly to variety of enterprise and action. Thus we find, all through the centuries, that the growth of ingenuity and invention, of demands for new privileges and defence of old rights, of personal freedom and political power, gradually develop with the formation of groups. This is very natural. As industries multiply, those engaged in any one industry have a common interest in defending and promoting that industry, in seeing that it has its share of opportunities for prosperity and growth.

Thus, in the early middle ages, as soon as the crudest kind of manufacturing arose, different kinds of "guilds" came into existence. These were group organizations to promote the interests of different groups of industry. The groups became centers of industrial education and led the way to demands for political freedom; that is, for a share

in the government, in order to protect and promote their trade interests. The growth of manufacturing industries led to the rise of cities, and in these cities were the real beginnings of modern self-government. Thus, the growing variety of industries first brought into existence a number of different kinds of groups, and next the necessity of common defence led these groups to unite and act together in larger groups. In the middle ages the largest single group was the city, and this was practically a little republic. Through it the people governed their own local affairs, even to the point of providing military protection. Their progress came entirely through the organization and action of groups.

4. The Nation the Largest Group. Just so, wherever men have made any progress they have had to act through groups of some sort. The largest group they have been able to work through, unitedly, thus far, is the nation. A nation contains within itself, of course, an immense number of smaller groups, industrial, political, social and religious. A nation is advanced and civilized in proportion as its people are prosperous, intelligent, moral, self-governing and inspired by progressive and worthy ideals; and these conditions exist chiefly in proportion as the industries are numerous and varied and the life of the people expresses itself through a multitude of closely related and interdependent groups. Mere "bunching" of people is not real group development. The Chinese are largely bunched or grouped in towns and cities, but each group is very much like every other group, and so there is but little diversity, little variety in the people's experiences, little chance for imitation or criticism from one group to another, and therefore almost no growth of new ideas or devices and little expansion of individual character.

5. Influence of Patriotism. Patriotism is the sentiment of loyalty to the national group, by its members. It is a strong influence in progress. It grows out of the citizens' realization that their interests, prosperity and progress depend upon the security, protection and welfare of the group, which includes all. Patriotism will induce men to sacrifice comfort, property and even life for their country, and thus it becomes a most efficient force in national development. It is the great resource to which statesmanship may appeal when mere individual interests would be too weak to create united action for any great national purpose.

6. Means of National Development. Briefly then, national development is the progress and expansion of the life and character of the people, within the nation, which is the largest group through which they can act or be acted upon. When national development ceases it means that the progress of the people is arrested. Therefore, it may be taken as a fundamental principle in political science that to promote national development is the end and aim of wise statesmanship. National progress takes place through complex and varied group development, the starting point of which is the increasing diversification of industries and employments. Making use of a country's natural resources should always be secondary to the development of the character of its people, and therefore when the natural environment or opportunities seem to lead only to the development of isolating, crude and monotonous industries, statesmanship should seek to promote greater variety and a higher quality of industrial effort. On the other hand, it should strive to check and weed out those evil tendencies, hardships and injustices which progress frequently brings along with its good results. To point out what the state ought to do and how

it may do it, in thus stimulating progress on the one hand and getting rid of its harmful features on the other, so that only its benefits may be left, is the chief task of political science.

SUGGESTED READING.

In "Principles of Social Economics," Chapter I. of Part IV. This chapter is entitled: "Laissez Faire as a Guiding Principle in Public Policy," and while not directly discussing the theory of national development it states the scientific grounds upon which government may and should act so as to promote the welfare of the nation.

In Pollock's "History of the Science of Politics," Chapter I., on "The Beginnings of Political Science."

In Burgess' "Political Science and Constitutional Law," Chapter I. of Book I., Part I., on "The Idea of the Nation."

EXTRACTS FROM READINGS.

Pericles' Ideal for the State. "What the student of politics has to note is this: there runs all through the speech the conception of the city, not as a mere dwelling-place or provision for material security, but as the sphere of man's higher activity. There is embodied in the city, in its laws, customs and institutions, a pattern and ideal of life for the citizen. . . . 'We aim,' said Pericles, 'at a life beautiful without extravagance, and contemplative without unmanliness; wealth is in our eyes a thing not for ostentation but for reasonable use; and it is not the acknowledgment of poverty we think disgraceful, but the want of endeavor to avoid it'—words from which our modern society still has much to learn. And it was this loftiness of aim, this appreciation of the worth of human

life, which justified Athens in aiming likewise at primacy among the Greek states. If Pericles had used the jargon of modern diplomacy, he would have said that Athens had a mission to fulfil in holding up the best attainable exemplar of a civilized community."—From Pollock's "History of the Science of Politics," Chapter I.

What is a Nation? "As an abstract definition, I would offer this: A population of an ethnic unity, inhabiting a territory of a geographic unity, is a nation. . . . By geographic unity I mean a territory separated from other territory by high mountain ranges, or broad bodies of water, or impenetrable forests and jungles, or climatic extremes, such barriers as place, or did once place, great difficulties in the way of external intercourse and communication. By ethnic unity I mean a population having a common language and literature, a common tradition and history, a common custom and a common consciousness of rights and wrongs. Of these latter the most important element is that of a common speech. It is the basis of all the rest. Men must be able to understand each other before a common view and practice can be attained. It will be observed that I do not include common descent and sameness of race as qualities necessary to national existence. It is true that they contribute powerfully to the development of national unity; but a nation can be developed without them, and in spite of the resistance which a variety in this respect frequently offers. Undoubtedly, in earliest times, sameness of race was productive of a common language and a common order of life; but the early mixing of races by migration, conquest and intermarriage eliminated, in large degree, the influence of this force. Territorial neighborhood and intercourse soon became its substitutes. In the modern era, the political union of different races under the leadership

of a dominant race results almost always in national assimilation. Thus, although the nation is primarily a product of nature and of history, yet political union may greatly advance its development, as political separation may greatly retard it. Sameness of religion was once a most potent power in national development, but the modern principle of the freedom of religion has greatly weakened its influence."—From Burgess' "Political Science and Constitutional Law," Chapter I. of Book I., Part I.

QUESTIONS FOR REVIEW OR DEBATE.

1. What is a nation?
2. State the real meaning of national development?
3. In what narrower sense is "national development" often used?
4. Describe the effect of different types of occupations or industries on the character of a people.
5. Explain why the kind of employments has so great an influence on the character and progress of the people and hence of the nation.
6. What is the relation of group association to human progress?
7. Mention some of the different kinds of groups in which people associate themselves.
8. What were the medieval guilds, and what effect did they have on the growth of self-government?
9. What is the largest group in which human beings as yet regularly associate.
10. What condition as to the groups within a nation indicates high civilization and progress?
11. What is patriotism, and in what way does it serve as a great force in national development?
12. What is political science?
13. What should be the chief object of statesmanship?
14. By what two great general lines of policy is it possible to promote this object?

CHAPTER II.

NATURE, POWERS AND DUTIES OF GOVERNMENT.

7. The State and Government. A distinct community of people, organized as one political body, is a state; and government is the form or instrument through which this organized body acts. In other words, government is the instrument by which a portion of the community acts, with authority, for the whole. This authority may in some cases be exercised by one person, and then the government is an autocracy or despotism, as in China and Russia. It may be exercised partly by an hereditary monarch and partly by elected officials, as in Germany and England; or by elected officials entirely, as in the United States, France and Switzerland. These differences in governments arise out of differences in the character, ideas and intelligence of the people living under them.

Under hereditary despotism, as in Russia, the autocrat acts for all the people, as they believe, by divine appointment. While the people of Russia do not elect their czar, they passively and for the most part loyally acquiesce in the supposed divine selection. He acts for and represents them, though he is not selected by them. Under democracy, as in the United States, the government officials are selected by the conscious action of the people; not of all the people, not even of all the adults, but by the male adults. This is the most democratic form yet adopted for choosing a national government.

8. The Authority of Government. Whatever the manner of selecting a government, so long as it continues to act authoritatively for the whole, whether by the direct choice or silent acquiescence of the people, its power must necessarily be absolute. If the government is to exist at all, its authority must be superior to that of any individuals or groups under it. The whole is greater than any of its parts. Its power is supreme because it represents the community in general. It is the court of last appeal in all disputes, and its authority over the individual extends even to the taking of his life. Of necessity, the government must have absolute power to deal with the transgressing individual.

But, while the individual at any given time is thus subordinate to the government, the government itself is subject to change or even overthrow by the individuals in the aggregate, whenever it ceases to represent or carry out the general ideas and wishes of the people. It is this fact that causes modifications in the forms of government. All the changes in governments, from absolute despotism to the completest democracy yet developed, are the result of repeated efforts and struggles to make the government more suitable to the needs and more representative of the ideas of the individuals. All the changes in the forms of government have arisen from changes in the habits, ideas and general character of the people living under them. Sometimes a change is a long time in coming, and sometimes it comes very rapidly; sometimes it is brought about by orderly methods, sometimes by revolution; but, whether it comes gradually or abruptly, by moral or by physical force, it results from the choice of the people or their pressure upon the government. Governments never volunteer to change their form. On the contrary, they always tenaciously resist alteration, and yield only

when they are forced to choose between making reforms and facing a revolution.

It is in this way that governments really reflect the general character of the people. In proportion as the people are poor, ignorant and superstitious, the government will be despotic and pretend to have some divine authority; while in proportion as the people are well-off, intelligent and characterful the government will be liberal and recognize individual rights and opinions. In other words, in proportion as people grow in wealth, intelligence and individual character, their personal freedom increases and the range of the government's authority diminishes.

Though there are always temporary exceptions, the general rule is that governments do what the individuals cannot as well do for themselves. The test of the individual's capacity to do for himself any of the things the government has been doing for him is in whether or not he demands the right to do these things. When a government fixes the religion and regulates the social life, wages and other conditions of the people, it is evidence that the people as a whole have not developed enough strength of character to decide these things for themselves. On the other hand, where government regulates neither the wages, employments, religion or social conditions of the people, it is conclusive proof that the people have developed the capacity to determine these things better for themselves. Consequently we always find that where people are poorest the government does the most for them, and where the people are most prosperous and intelligent the government does the least for them and they do the most for themselves.

9. Uses and Duties of Government. Government does not exist for itself but is only a means to an

end, which is the welfare of the individuals. It is a political instrument by which the community jointly acts for and ought to promote the welfare of its individual members. Socialists assume that the state is the great object to be developed, and that to this end individuals are but the means. This is contrary to the history and natural theory of government. Originally men were without any government, and it was instituted and tolerated only because, tyrannical as it was at first, the order and protection it gave was better for the individuals than to go on living as unorganized, wandering nomads. It was only when individuals' interests became too numerous and conflicting, and their lives and relations with each other too complex to permit each one to look after and protect all his own interests single-handed, that rules of conduct were established and government created.

In early and crude society, as we have seen, the government looks after a very large proportion of these individual interests, and there are certain fields in which government probably always will continue to act, simply because people will always be able to do these particular things jointly, through the instrument of government, better than by acting alone, each for himself. Except for these great general functions, like preserving order, administering justice, protecting the nation against outside foes and harmful influences, and stimulating the general conditions of progress, the right and power of deciding and regulating conduct is being gradually transferred from the government to the individual. This comes in proportion as the character and capacity of the individual expands, and it is one of the great duties of government to promote the conditions which will make its citizens capable of taking and using this larger authority; in other words, to make itself less necessary by help-

ing the people to become more intelligent, self-reliant and responsible.

10. Difference Between Paternal and Protective* Government. In proportion as the people thus assume the right and responsibility of doing such things as can be done better by themselves than by the government, the government ceases to be paternal and remains distinctively protective in its functions. There is a marked difference between paternal and protective government. Paternalism means doing for the people; protection means guarding the opportunities for the people to do for themselves. These two forms of government are frequently confounded, but in reality protection is as different from paternalism as democracy is from despotism. Paternalism, however, is not always necessarily bad. Whether paternalism or protection is the better policy for the nation depends entirely upon the civilization of the people. Where this is at a very low point, a merely protective government would be as ineffective and impossible as a democracy. Under such conditions paternalism is the more efficient and superior form. In Russia to-day, and in many other countries where industrial monotony, ignorance and poverty generally prevail, progress might be greatly hastened by an even more thoroughly paternal government, in many respects, than they already have. If Russia had been obliged to wait for individual enterprise before any of her great railroads were built, she might to-day have had scarcely any. If, now, the Russian government would build factories and conduct manufactures, as it has built the railroads, and at the same time encourage individual investment

* The words "protection" and "protective" as here used have an altogether broader meaning than customs tariff duties. See Chapter VIII. on Protection.

in the same lines, Russia's industrial progress might be hastened by several decades or even generations. In the relatively crude, medieval conditions of such a country, with but little capital, energy or ideas, progress comes only by the very slowest process of evolution, and a paternal government by introducing modern industries may greatly hasten the general advancement of the country. The government, under such conditions, is the most effective and active power in the community, while under high civilization it is constantly behind and inferior to individual enterprise. When a nation has passed the early stages of industrial and social life and reached the point where individual enterprise takes the lead in industry, and government is conducted by elected representatives of the people, then paternalism become a waste, and government is or should be limited chiefly to its protective, judicial and educative functions; encouraging the people to do for themselves and protecting them therein.

SUGGESTED READING.

In "Principles of Social Economics," Chapter II. of Part IV., on "The State; or, the Nature and Function of Government." This chapter takes up, among other things, the question of whether the state should be considered an *organism*, as maintained by the socialists and even by Herbert Spencer, or an *organization*; and shows the widely different directions in which these two theories lead, when applied to practical policies.

In Burgess' "Political Science and Constitutional Law," Chapters I. to IV. inclusive, of Book II., Part I., discussing respectively the idea and conception of the state, its origin, its forms and its ends. Also, Chapter I. of Book II., Part II., showing the process of development of individual liberty.

In Pollock's "History of the Science of Politics," Chapter II., which discusses the theories of sovereignty and government held in the later middle ages.

In Willoughby's "The Nature of the State," Chapters II. (on "Preliminary Definitions and Distinctions"); VI. (on "The True Origin of the State"); IX. (on "The Power of the State: Sovereignty"), and XII. (on "The Aims of the State"). Chapters III., IV. and V. are also of importance, analyzing and criticising various theories of the origin of the state.

In Wilson's "The State: Elements of Historical and Practical Politics," Chapters I., XIII., XV. and XVI. These chapters deal with the early forms of government, nature of the state, nature, forms, functions and objects of government.

EXTRACTS FROM READINGS.

Liberty and Government. "There never was, and there never can be, any liberty upon this earth and among human beings outside of state organization. Barbaric self-help produces tyranny and slavery, and has nothing in common with the self-help created by the state and controlled by law. Mankind does not begin with liberty. Mankind acquires liberty through civilization. Liberty is as truly a creation of the state as is government; and the higher the people of the state rise in civilization, the more will the state expand the domain of private rights, and through them accomplish the more spiritual as well as the more material ends of civilization; until, at last, law and liberty will be seen to be harmonious, both in principle and practice."—From Burgess' "Political Science and Constitutional Law," Chap. IV., Book II., Part I.

Some Protective Functions of Government. "There are some things outside the field of natural monopolies in

which individual action cannot secure equalization of the conditions of competition; and in these also, as in the regulation of monopolies, the practice of governments, of our own as well as of others, has been decisively on the side of governmental regulation. By forbidding child labor, by supervising the sanitary conditions of factories, by limiting the employment of women in occupations hurtful to their health, by instituting official tests of the purity or the quality of goods sold, by limiting hours of labor in certain trades, by a hundred and one limitations of the power of unscrupulous or heartless men to out-do the scrupulous and merciful in trade or industry, government has assisted equity. . . . In scores of such cases government has intervened and will intervene; but by way, not of interference, by way, rather, of making competition equal between those who would rightfully conduct enterprise and those who basely conduct it. It is in this way that society protects itself against permanent injury and deterioration, and secures healthful equality of opportunity for self-development."—From Wilson's "The State," Chapter XVI.

Things the Government May Do. "Under the non-socialistic duties of the government are included those which if not assumed by the state would not be exercised at all. They are duties not essential to the state's existence, and yet, from their very nature, not likely or even possible of performance by private parties. Such duties as these are therefore not socialistic, because their public assumption does not limit the field of private enterprise, nor in any way interfere with private management of any sort of industry. As a rule, they are powers educational in character rather than coercive, directive rather than controlling. . . . Of this character is that large class of governmental duties, that we have before mentioned,

the exercise of which results in the raising of the plane of competition, rather than destroying it. . . . Their purpose is, not to interfere with the struggle for existence and the survival of the fittest, but to transform the environment, and, by diffusing sounder information concerning the character of the conditions and the nature of the forces by which man is surrounded, to render it possible for him either to harmonize his efforts with them, or to direct his strength and intellect to a modification of them. In fine, to increase his opportunities."—From Willoughby's "The Nature of the State," Chapter XII.

QUESTIONS FOR REVIEW OR DEBATE.

1. Define the "state" and "government," explaining the difference between them.
2. Describe some of the different kinds of governments.
3. Why must the power of government necessarily be absolute?
4. Explain in what sense the government itself is finally subject to the people, in the case of autocracy as well as of democracy.
5. Through what kind of efforts have all the changes in governments come about?
6. Give illustrations showing how governments reflect the general character of the people.
7. Explain why this is so.
8. What general rule determines the field in which governments act?
9. Should government be regarded as an end in itself or a means to an end? If the latter, to what end is it a means?
10. What is the tendency, as civilization advances, as to the proportion between government and individual activity?
11. Explain the difference between paternal and protective government. Which type tends to disappear with the advance of progress?
12. State the conditions under which a paternal government is best for a country, and illustrate by examples.
13. What is the great object of the protective functions of government?

CHAPTER III.

FROM DESPOTISM TO FREE GOVERNMENT.

11. Savage Life. In studying the history of government we find that political changes follow in the path of industrial development. The fewer and simpler the industries the more despotic the government; and the more complex and varied the industrial life the more directly representative and liberal the government becomes.

The earliest condition in which human life is found is that of savagery. The word savage does not necessarily mean ferocity or brutality, but it indicates the lowest known condition of human life. There are degrees even of savagery; some types have been found in Borneo and elsewhere, who neither cultivate the land nor have domestic animals, except the dog; have no family life, but, as Dalton describes them, live "absolutely in a state of nature."

At this stage there was, of course, no such thing as government or political organization. There was really no need of government, because there were no fixed industries, no social life, no family obligations. As Edward Jenks, of Oxford, says:* "The actual savage is usually a miserable, underfed and undersized creature, naked and shivering, houseless, in constant terror of dangers seen and unseen, with no family ties as we understand them,

* Page 14 of "A Short History of Politics," by Edward Jenks, M.A., of Oxford University.

with no certain food supply, and no settled abode," consequently no need of government.

12. Tribes and Families. A little later we find men associating in a crude way in wandering groups or rudimentary "tribes," in order to hunt and fight more effectively and for the sake of better protection against other savages and the wild beasts of the jungle. The leader of such a group would be its most powerful warrior or hunter, and as this form of association became more thoroughly developed the individual members would be absolutely subject to arbitrary tribal law. In many cases everything was regarded as belonging to the tribe in common; the women even being treated as common property and the children as children of the tribe.

Very early, however, some recognition of individual rights arose, and family life began. At first this was based chiefly on force; husbands had to steal their wives, and frequently one tribe would raid another and carry off the women. It was the first great step, however, in the separation of individual rights from common rights, and gradually led to a very important form of social organization, the so-called "patriarchal" family group. In some quarters it is more than likely that this patriarchal family developed quite as early as the tribe, perhaps earlier; the tribes being formed later by the association of numerous large family groups.

These patriarchal families were groups of people, centered around some male head regarded as the father of the group. Not all the members of one of these groups were related to the head; indeed, often the majority were in no way related. Except to his immediate family the father was a political, not a natural, father. The family was enlarged in many different ways, often by captives taken from other patriarchal groups in battle. Whether

the increase was by new births, refugees from other groups, or captives in war, it was all the same. Wives, children, captives, slaves, all were a part of the patriarchal family, and over them all the father or head of the family was absolute despot. He could punish, sell, kill or do whatever he pleased with any member of the family.

13. Beginnings of Settled Life. Both the tribe and the patriarchal family came into existence as the result of men's efforts to get a living and to protect life and personal belongings. The same efforts, further continued, led to the domestication of animals, herding, raising of crops, and forming of permanent settlements.

When animals were caught for food the huntsmen would often have more, ~~than~~ they required for immediate use, and sometimes would keep them alive partly for the sake of sport or amusement, partly in order to torture the beasts, and partly to have them ready to kill some other day. Some of the captive animals would live long enough to excite the interest or even affection of their captors, and, if the pangs of hunger were not too strong, they would be kept as pets and so become domesticated.

The domestication of animals was an important step in industrial development. It furnished a reserve source of food and clothing supply, besides very useful help in carrying burdens. The development of herds and flocks compelled a more settled kind of life, with more rapid increase in population. This intensified the problem of the food supply, for, the smaller the area over which the group roamed, and the larger the group, the greater must be the supply of food per square mile. Mere gathering of nuts and berries was not enough, and so men very naturally turned to crude forms of agriculture. Instead of relying on spontaneous growth, men were forced to plant and harvest crops; and this, even more than the

domestication of animals, tended towards permanent settled life. Manifestly, the ownership of herds and flocks and cultivation of the fields made it necessary that the people should stay at least a season at a time in one place, otherwise the crops could not be harvested nor the flocks and herds cared for.

14. Early Forms of Government. This raising of flocks and cultivation of the land carried with it the idea and the fact of *ownership* of the products. People would not raise crops unless they could have them, and so the right of property was developed. This, necessarily, brought with it the general social recognition of the right of property and social protection of the ownership of property. A code of rules became necessary. Recognition of the right of property, of course, involved the forbidding of theft. It was no longer permissible to take whatever was in sight. This naturally brought about a higher form of political organization than mere tribal or patriarchal despotism. Some power was required to enforce these rules for the protection of property and personal rights, and, therefore, the tribe and family systems of authority naturally developed into more regular, responsible forms, and became in a proper sense governments. At first government authorities were not strong enough to enforce obedience without some outside support, and so they had to appeal to a supernatural sanction. The people would respect commands that purported to come from their tribal or national gods when they would not respect the ruler's personal edicts. This form of government was known as theocracy—government by God.

Under it, agriculture was developed, towns and cities grew up, and a considerable amount of trade and manufacturing arose. With the increasing variety of indus-

tries came, of course, the necessity for more numerous and special laws regarding personal and property rights. With more law-making there was more discussion and argument, if only among the few who composed the governing group, and therefore a more rational element in government. As the people's interests of all sorts multiplied, the advantage of having a settled government and laws to define and protect these interests became more and more obvious, and the necessity of claiming a divine sanction for government gradually died out. The ruler ceased to issue his edicts as direct laws of God, but still acted on the theory that his right to rule came from God. Thus theocracy gave way to autocracy, or one-man government, supported by the "divine right of kings" theory, which still prevails in oriental countries, and in Russia, and is only just passing out of recognition in so modern a country as Germany.

SUGGESTED READING.

In Lubbock's "Origin of Civilization," Chapters I., III., VII., VIII. and IX., on the conditions of life, customs, tribal and family relationships, character, morals and laws of primitive savages.

In Jenks' "History of Politics," Chapters I. to VI. inclusive; treating respectively of "Types of Society," "Savage Organization," "Patriarchal Society in General," "The Domestication of Animals," "Tribal Organization" and "Agriculture and the Clan."

In Pollock's "History of the Science of Politics," Chapter III., on eighteenth-century theories about the state, government, right of sovereignty, the "social contract," etc.

EXTRACTS FROM READINGS.

Beginnings of Agriculture. "It is fairly clear that, during the purely pastoral epoch, there were no permanent divisions of the land within the tribe. Each man's share of the tribal land was reckoned, not in acres or other land measurement, but in cattle and sheep. It was, obviously, much easier to reckon this way than to go to the trouble of measuring out the land and allotting a portion to each man. The cattle wandered about, according to the season of the year, followed by the tribesmen with their tents and scanty goods; and it is probable that this is all that a good deal of the so-called nomadism amounted to. But now we have to suppose the practice of agriculture slowly adopted, 'because of the abundance of the households.' Gradually this wandering existence became more and more impossible. Granted that, at first, the cultivators of the soil cleared and broke up any part of the forest land not actually occupied by their fellow-tribesmen, sooner or later the improvements in agriculture described at the beginning of this chapter rendered people unwilling to abandon their land. But who were the earliest cultivators of the soil? Obviously, the strangers attached to the tribe, upon whom the rough work of the community fell, and who would be the first to suffer from scarcity of food. Gradually the tribal territory thus got broken up among the rich tribesmen, each with his "Ceile" or dependents and his "Fuidhir" or strangers; and, after three generations of holding, he could not be dispossessed."—From Jenks' "History of Politics," Chapter VI.

No Freedom in Savage Life. "Even the lowest races of savages have laws. Nay, every action of their lives is regulated by numerous rules, none the less stringent be-

cause unwritten. Thus Mr. Lang, speaking of the Australians, tells us that 'instead of enjoying perfect personal freedom, as it would at first appear, they are governed by a code of rules and a set of customs which form one of the most cruel tyrannies that has ever, perhaps, existed on the face of the earth, subjecting not only the will, but the property and life of the weak to the dominion of the strong.' . . . No savage is free. All over the world his daily life is regulated by a complicated and apparently most inconvenient set of customs (as forcible as laws), of quaint prohibitions and privileges; the prohibitions as a general rule applying to the women, and the privileges to the men. 'To believe,' says Sir G. Grey, 'that man in a savage state is endowed with freedom, either of thought or action, is erroneous in the highest degree.'—From Lubbock's "Origin of Civilization," Chapter IX.

QUESTIONS FOR REVIEW OR DEBATE.

1. What is the earliest known state of human life? Describe some of its principal characteristics.
2. What was the earliest form of human association? How did it originate?
3. Under this early tribal organization, what was true of individual rights of person and property?
4. Describe the patriarchal family system. To what extent did the authority of the "father" reach?
5. What custom was probably the earliest step towards settled life? How did this custom arise?
6. How did agriculture begin? How did this affect the conditions of community life?
7. In what way did the idea and necessity of personal ownership of property arise?
8. How did the growth of property ownership lead to higher and more regular forms of government?
9. In what way was the authority of early rulers supported? Why was this necessary and how did it disappear?

CHAPTER IV.

FROM DESPOTISM TO FREE GOVERNMENT—*Continued.*

15. The Era of Despotism. For twenty centuries before the Christian era, industrial progress was very meager. The masses wore skins, went barefoot, and, being subject to sale as slaves for debt, the majority fell into slavery. Under this industrial stagnation and uniformity there was little incentive for the development of new political institutions. The tendency was to enthrone despotism more securely. Powerful monarchs were constantly seeking to extend their kingdoms, and so make monarchy still more uniform by increasing the range of its authority. In other words, subjection of weaker tribes and kingdoms to stronger ones was the struggle of many centuries, culminating in the Roman empire, which endeavored to bring all the known nations of the earth under one political system with a single headship, the Roman emperor. Under the Roman empire, the Christian church rose to great political as well as religious authority, taking on this same principle of universal uniformity, which still remains the guiding principle of the Catholic church.

With the fall of the Roman empire in the fifth century, this regime of political "universality" broke down, and society dissolved into its primitive elements. Then, for five hundred years, the great struggle was to re-establish the old Roman empire, and indeed this was partially accomplished by Charlemagne in the year 800.

But he only lived as emperor fourteen years, and the struggle to restore the empire utterly failed.

16. Feudalism and the Towns. Gradually, throughout Europe, the strong warriors and great landowners became practically kings, each in his own domain, and the people settled down in local groups. Land ownership was the chief center of power and authority, and the people swore fealty to the lords and barons who held the land and protected them in return. By the tenth century this "feudal system" had extended over the most of Europe, but through it all the church continued without material change. While universal authority had entirely disappeared in government, it was even more tenaciously retained in the church. The barons were constantly fighting for supremacy among themselves, or between themselves and the kings, who in many cases were practically only great barons, but the church claimed authority over them all. It assumed the right to make and unmake kings at will.

Two great movements, of far-reaching consequences, developed under the feudal system. One was the growth of towns, on the barons' domains, which became centers of industry and trade; the other was the crusades, which took many of the more enterprising leaders in Europe into the Holy Land where they came in contact with the people of the Orient. The crusaders brought back to Europe many of the more advanced eastern ideas regarding art, literature, commerce, and the use of manufactured luxuries which had been produced for the opulent oriental kings. This, together with the great demand for war implements and means of transportation, in the crusades, greatly stimulated manufacturing and artistic industries, which in turn increased the population and multiplied the interests within the towns.

Therefore, the towns grew in prosperity, wealth and population, and became the envy of the barons, who looted them on every opportune occasion. Naturally, the people would cooperate to protect their property and liberty, and frequently the king, who was usually at war with the barons, would side with the towns, granting the citizens or "burghers" special charters, conveying new rights and privileges and exemption from some of the exactions of the barons. This tended to make the towns friendly to the king and stronger in their resistance to the nobles.

Such was the progress in this direction that during the eleventh and twelfth centuries Europe was dotted with towns and cities, which had acquired by these means some degree of self-government, and not a few of the free cities had become practically little republics. At the same time, as a result of the struggle of the barons for political rights denied them by the king, the great charter of Henry I., in England, was issued, in 1100, and magna charta by King John in 1215, which laid the foundation for modern free institutions. As the towns grew richer and stronger they acquired more and more industrial and political rights, and feudalism declined. By the fifteenth century it had almost passed away, and the power of the monarch was increasing, but, since the monarchy had grown by the aid of the industrial or burgher class against the land barons, the power and influence of the towns, as between these two forces, steadily increased. As early as 1265 the burghers were summoned to send representatives to the first English parliament, and by the middle of the fourteenth century the house of commons became an established force in the government of England. This was really the beginning of representative government.

17. Struggle Between Church and State. A great struggle now took place between the new and growing principle of national sovereignty, as represented chiefly by England, and the old principle of universal authority as represented by the church. This lasted from the twelfth to the sixteenth century. The church recognized no political lines or civil laws, but claimed the right to make kings or governments, basing this on the claim of divine authority. But, with the growth of cities and the development of industry, trade and commerce, a larger and larger portion of the population was becoming experienced in public affairs, more determined to regulate their own industrial interests, free from church interference, and the church was ultimately defeated. It became exclusively a religious institution, and government a political institution. This meant the firm establishment of independent nations, as the new type of political life.

18. Further Growth of Freedom. Within the nations, especially England, this same tendency continued, taking the form of the development of new groups of interests, with new demands for new rights and privileges. The extent to which these new groups succeeded in gaining their demands was everywhere in proportion to the industrial progress of the various nations. Where industry remained uniform and the methods unchanged, monarchy resisted all inroads, and where manufacturing industries declined, as in Spain after the Moors were driven out, the government relapsed to an even more despotic type, the representative element disappearing altogether. But where industries and employments multiplied, as in England, new demands for political rights, arising out of the varied industrial and social interests, rapidly increased, and a

broader basis of government became necessary. The efforts of the king to retain absolute authority provoked discontent, then petitions, then open revolt, and, as in the case of Charles I., overthrow of the monarchy. This forced a wider representation of the people in government and definite recognition of the people's rights, which even the king could not ignore. By the revolution of 1688, in England, the right of the people to rule, through parliament, even to the making and unmaking of kings, was finally established and the way opened for literal democracy.

The next great step was a revolution in the methods of industry, the rise of the factory system in the latter half of the eighteenth century.* This brought the laboring or distinctly wage-earning group into prominence for the first time, and still further separated the interests of landlords and manufacturers; the result being new movements for political freedom both by the "middle" (or manufacturing) class and the wage-earners, until finally nearly all male citizens in advanced countries have been admitted to at least some voice in the government.

19. Rise of Democracy. The early settlers of this country brought with them the ideas of freedom and progress that were developing in England, and, being far away from the direct influence of old tradition and force, it was not long before we broke away and established a new and more advanced type of government—democracy. This new type was only a natural step in advance of the last stages of the old. It made government entirely representative and elective, removing the monarchical element altogether. With the progress of our own civilization since then, we have still

* See "Outlines of Social Economics," Chapter II.

further extended the range of freedom and protected the citizen's right to express his choice in the government, freely and unmolested.

20. Backward Nations. In many countries, especially in the Orient, but little industrial diversification has taken place, and consequently little growth of political freedom. The old universal-authority type of government, with one-man despotism, still prevails in China and largely in Russia. Those European nations that have made least progress in industrial development have made least progress towards democratic government, as Russia, Turkey and Spain. On the other hand, where the industrial diversification has been most marked and continuous, as in England, the United States, Germany and France, representative free institutions have developed, and the principle of democracy, in one form or another, has practically and in some cases actually and completely, supplanted that of monarchy.

SUGGESTED READING.

In "Principles of Social Economics," Chapters V. to VII. inclusive, of Part I., describing and discussing the rise and fall of the medieval "free cities," and the progress of political freedom growing out of industrial development.

In Gibbins' "Industry in England," Chapter IV., on "The Manor and the Manorial System;" Chapter VI., on "The Towns and the Gilds;" Chapter X., on "The Towns, Industrial Villages, and Fairs;" Chapters XXI., XXII. and XXIII., on "The Epoch of the Great Inventions," "War, Politics and Industry," and "The Factory System and its Results," respectively. Or, in the same author's smaller volume, "Industrial History of England," Chapters I. and II., Period II.; Chapter III.,

Period III.; Chapters II. and IV., Period V.; covering the same subjects in abbreviated form.

In Jenks' "History of Politics," Chapters VII. to XIV. inclusive. These chapters treat respectively of "Industry and the Gild," "The State and Feudalism," "Early Political Institutions," "The State and Property," "The State and Justice," "The State and Legislation," "The State and Administration" and "Varieties of Political Society."

In Gneist's "History of the English Parliament," Sections VIII. and IX., of Part I., and I. to VI. inclusive, of Part III., on magna charta, the beginnings of the English parliament, and organization of the church.

In Pollock's "History of the Science of Politics," Chapter IV., on "Modern Theories of Sovereignty and Legislation."

In Guizot's "History of Civilization in Europe," Lectures IV., VII., VIII. (second part), X., XII. and XIII., treating respectively of "The Feudal System," "Rise of Free Cities," "The Crusades," "Attempts at Organization," "The Reformation" and "The English Revolution."

In Hallam's "Europe During the Middle Ages," Chapter II., on "The Feudal System, Especially in France," and Chapter VII., on "Ecclesiastical Power During the Middle Ages."

In Maine's "Popular Government," Essay II., on "The Nature of Democracy."

EXTRACTS FROM READINGS.

Forms of Government. "Sovereignty may be organized in different ways. It may be vested (in theory at least) in the hands of a single individual, as, for example, in Russia. Or it may be vested, and this is by far the commoner case, in a number of individuals or bodies, as in the Crown, Lords and Commons, in the British empire.

As this latter arrangement always gives rise to a good many elaborate rules concerning the relationship between the different individuals or bodies composing the *sovereign power*, it has received the name of *constitutional government*, while the sovereignty vested in a single individual receives the name of *autocratic government*. But we must be careful to remember that, owing to political passions, these names have received *moral* as well as *scientific* meanings. By *autocratic* rule, many people mean *arbitrary* or *capricious* rule; by *constitutional government*, they mean *mild* or *good* government. Of course, the government of a numerous body may be, and often is, just as arbitrary and capricious as the rule of a single individual; and *vice versa*. Needless to say, the proportions in which sovereign power is divided among the different members of a sovereign body varies almost infinitely with each case. And so also do the methods by which the various members are selected. Sometimes the executive and legislative powers are quite distinct, as in the German empire, and, virtually, in Austria; sometimes they are combined, as in England. Sometimes the law courts are beyond the control of the legislature, as in the United States of America; sometimes they are, legally at least, subject to its control, as, again, in the British Empire. Again, the head of the state may be hereditary or elective, and this independently of the extent of his powers. The German Emperor, with very great power, is hereditary; the President of the United States, also with great power, is elective. The King of the Netherlands, who has very little power, is hereditary; the President of the French Republic, also with small power, is elective."—From Jenks' "History of Politics," Chapter XIV.

The Factory System and Political Progress. "Now it is noticeable that the Industrial Revolution, which caused

so much misery to the working classes at first, gave them in the end much of their present political power by the very nature of its economic conditions. The use of machinery worked by steam power necessitated the concentration of workers into factories, where this power could easily be supplied to a set of machines; and since factories, again, to obtain steam power, must be situated near a convenient supply of coal, it resulted that the population working in manufactures was compelled to concentrate itself on the great coal-fields. To this migration of the population to the coal districts of the North and Northwest we have already alluded, and it only remains to point out here how the growth of great manufacturing towns, resulting from this process, created immediately the political question, as to the proper representation of such large masses of people in Parliament. . . . One may note, also, the class jealousy of the great landed proprietors of the House of Lords against the new manufacturing population that was demanding admittance into the councils of the nation. . . . The Reform Bill was passed at last, and the manufacturing population of the towns gained the first step in their progress towards political influence. It was, however, only a step, and many more had to be taken before they could be said to be adequately represented in the life of the nation. But the history of their progress towards the franchise is a matter for the political historian; the economist need only notice that the coal mine and the spinning jenny revolutionized the face of English politics as effectually as the guillotine changed the course of the politics of France."—From Gibbins' "Industry in England," Chapter XXII.

QUESTIONS FOR REVIEW OR DEBATE.

1. What industrial causes led up to the system of universal authority, as attempted by the Roman empire?
2. What were the essential features of the feudal system? How did that system arise?
3. Describe the rise of manufactures and towns on the feudal estates?
4. How did the crusades affect the growth of industries and towns in Europe?
5. How did the towns manage to secure trade privileges and political rights?
6. What may be said of the influence of these medieval towns on the growth of political and religious freedom in Europe?
7. What was the great point at issue in the struggle between church and state during the middle ages, especially in England? How did the struggle end?
8. What were the great general forces that led up to the revolution of 1688 in England? What principle was finally established by this revolution?
9. What new steps in political freedom resulted from the rise of the factory system? Explain the reason.
10. What circumstances enabled the people of this country successfully to establish a new type of government?
11. Describe some of the distinctive features of democracy.
12. What is the principal cause of the failure of oriental nations and the backward countries of Europe to make any important progress in political institutions? Illustrate.

CHAPTER V.

STATESMANSHIP AND POLITICS.

21. Points of View of Business Man and Statesman. Under popular government there is a great variety of political activity. Different groups in the community, having different interests, such as agricultural groups, manufacturing, financial, mercantile, labor, etc., seek to direct and shape legislation so as to promote their special interests. Partly from this fact, and partly from the fact that business methods often seem more direct, definite and effective than governmental policies, the idea is frequently expressed that politics should be regarded and conducted simply as "business" and according to business rules. Except as to the details of mechanical administration of government, this is a mistaken idea. In all departments of government which involve the choice of public policies to be pursued, the statesman's point of view, from which he should act, is not necessarily the same as, and often may be quite different from, what is regarded as the business man's point of view.

The business man's point of view, naturally, is that of his own business, and is usually a short-range view. His first duty is to consider the success of his own enterprise. This largely depends upon the good judgment and integrity of his buying and selling. In his business he is called upon to deal directly with a limited number of people, and chiefly the same people. He meets facts as they arise every day in this immediate and close-range circle

of activity. He is concerned with how to create for himself a margin between the price at which he buys his goods or raw materials, and that at which he sells. He is not to be criticised for this; it is the practical and necessary course for the successful business man. "Business" is to make the most out of existing industrial conditions, or, in business parlance, the market.

But the statesman's point of view is quite different. He does not deal with buying and selling. His function is not merely to take advantage of industrial conditions as they are at present, but rather to deal with the influences and conditions which shall determine the opportunities and possibilities of business and of social welfare in the future.

A citizen may be a successful business man and also a successful statesman, but it will not necessarily or even probably be because he either takes his business methods into statesmanship or the methods of statesmanship into business. He may be a good business man and a very poor statesman, and he may be a good statesman and a very poor business man. Success in the one sphere does not necessarily imply success in the other, because they do not call for the same kind of methods or reasoning or general point of view. The point of view of the statesman is that of the welfare, not of one industry or of one class, but of the whole community. His concern is so to direct the policy of the nation as to improve the opportunities for successful business in all its variety. The question with him is not how to take advantage of a rising or falling market, but how to influence future conditions so that the market shall be permanently expanding and thus afford the opportunity for growing business prosperity.

The duty of the statesman is to consider the principles which govern industrial and social conditions, and base

policies upon them ; in other words, it is his duty to create opportunities, and that of the business man to utilize them. The highest qualification for statesmanship, therefore, is not necessarily the successful conducting of industrial enterprises, but consists rather in mastery of the principles which underlie and govern the conditions which shall make successful industry possible. The success of a statesman must come from his adequate knowledge and comprehension of the laws and influences governing the infinite variety of motives and forces that are at work in a complex human society. He must see from the point of view, not of profits to himself, but of the welfare of the whole community with all its seeming conflicting interests, from center to circumference.

In studying this problem and endeavoring to act from this point of view, he will note, for one thing, that the prosperity of the community depends in the last analysis upon the existence of an active, varied and increasing market for the products of industry. Where this is present sales are large, business is profitable, labor is well employed, and the general social welfare of the whole community is increasing ; in short, civilization is progressing.

22. Wage-Earners and National Welfare. The statesman will look for the economic causes which tend to promote this opportunity for business prosperity. Having seen the importance of the market, as the basis of industry, the question for the statesman is, What makes the market? Here the fact appears that the market is the active or effective demand for goods by the masses of the community, and under modern conditions this means the great laboring or wage-earning class. In other words, the welfare and consuming power of the wage-earning class is the foundation and support of the prosperity of

the nation as a whole and of the business and capitalistic interests in particular.

This logically leads the statesman to adopt a much broader attitude than that of the business man who is governed by the close-range buying-and-selling point of view. When business becomes dull and profits diminish, the first impulse of the business man is to depress wages and buy as little as possible. From his point of view this seems the most direct way to prevent disaster, but from the broader view of the statesman it is clear that this policy, if generally adopted, instead of preventing business misfortune would tend to spread and intensify it. To remedy the evil of a declining market by reducing wages is to restrict and cut off the largest element in that market, the laborers' power of consumption. Every contraction of the laborers' income is a contraction of the market and sooner or later a check to business prosperity.

The statesman will further see, however, that it is useless to ask the business man not to act in this way. It is unavoidable from the business man's point of view. The statesman's duty, therefore, is not to denounce the business man for doing what to him is an obvious necessity, but to act positively and effectively in the broader field of directing public policy so as to stimulate the influences that create and diversify the market. Since the wage-earners' consumption is the foundation of market expansion, and therefore of business prosperity, and therefore of national welfare, the statesman's attention should be chiefly devoted to the conditions and influences which broaden the laborer's social life and raise his standard of living, because without this there can be no large and increasing consumption of goods.

23. The Test of Sound Public Policy. It may be said, therefore, that the final test of sound public policy in

any nation is the influence of that policy upon the social opportunities and the industrial condition of the wage class. Whatever economic reform is proposed, whether in taxation, trade privileges, money, banking, foreign trade or labor legislation, the most important test of its permanent influence upon the welfare of the nation is its effect upon the opportunities for elevating and broadening the social life and so increasing and diversifying the consumption of the wage-earning community.

SUGGESTED READING.

In "Principles of Social Economics," Chapter IV. of Part I., showing the connection between large consumption of wealth by the masses, and the progress of civilization.

In "Wealth and Progress," Chapter II. of Part III., on "How to Enlarge the Social Opportunities of the Masses."

EXTRACT FROM READINGS.

The Laborer and National Welfare. "The important question for the statesman to ask is, What political, industrial or social change, if any, will naturally call into operation the forces that will unconsciously and automatically differentiate the higher social relations of the industrial classes. According as any change, of whatever nature, tends to do this, will it tend to develop the laborer's character—increase his wants—raise his standard of living—advance his wages—increase the consumption and production of wealth—dispel industrial depressions, and promote the prosperity and progress of the community. But while no measure can be efficacious in improving the laborer's condition in any country or state of society which does not operate upon and through his

industrial and social environment, it does not follow that the particular change which would most effectually tend to increase the social opportunities of the masses under one set of industrial conditions would necessarily do so under all industrial conditions. For instance, what would tend to enlarge the facilities and increase the incentives for more complex social relations among the laborers of America, England, or in the more advanced continental countries, might prove inoperative or even injurious to the Patagonian, the Jamaica negro, or the mass of laborers in Asia, Africa and South America. For while the general law governing economic and social evolution is universally the same, the special measures necessary to accelerate its movement may vary according to the existing industrial and social conditions to which it is to be applied."—From Gunton's "Wealth and Progress," Chapter II. of Part III.

QUESTIONS FOR REVIEW OR DEBATE.

1. What has led to the idea that politics should be regarded and conducted simply as "business"?
2. What is necessarily the business man's point of view, and to what kind of activities does this restrict him?
3. What is the proper point of view of the statesman, in the large sense?
4. Does success in business necessarily imply success and wisdom in statesmanship? Explain your answer.
5. What will the scientific statesman find to be the real basis of national prosperity?
6. What industrial class chiefly compose the market, in modern countries?
7. Why is reduction of wages a mistaken remedy for business depression?
8. If the individual business man cannot avoid this course, what kind of policies should the statesman adopt?
9. What is the great test of sound public policy?

CHAPTER VI.

STATESMANSHIP AND POLITICS—*Continued.*

24. Political Parties. Political parties are an inevitable feature of popular government. In a very simple community the people may govern without party organization, as in early town meetings in New England, but this is practicable only in small communities and where the things to be done are simple and few. As the community grows, industries develop, and public interests multiply, it becomes impossible to carry on government by this direct town-meeting method. In order that the people may decide on public policies and hold somebody responsible for carrying them out, it becomes necessary for them to choose representatives to act for the whole community.

This choosing of representatives necessarily requires the grouping off of citizens according to their different ideas as to what action these representatives should take. These different opinions grow into political doctrines and the groups advocating them become political parties. Parties, therefore, are the instruments through which public opinion is formed into public policy. Generally, as in the United States, there are two great parties, representing broad fundamental differences in political principles, and several smaller parties which seldom come into power but are mainly parties of agitation, urging various special reforms or changes in public policy. Frequently, the influence of these smaller parties induces, if not prac-

tically forces, the larger organizations to modify their policies and take more advanced ground on new issues that had grown up rapidly and been neglected by the old conservative parties until new groups were formed to urge them forward.

25. The "Spoils System." While political parties are necessary to popular government, they are by no means free from moral defects. In the struggle for power it was not unnatural for party leaders to offer inducements of a substantial kind to voters with whom argument was not sufficient. Hence came the practice of giving party workers offices in the government. It is often said that in the United States this custom was originated by Andrew Jackson, but this is not quite correct. No policy comes into existence as the sudden creation of a single man. This system of using public offices to reward party service had grown up gradually and reached considerable proportions in Pennsylvania and New York before Jackson's time, and indeed political corruption in various forms was even more flagrant in the early part of the century than it is to-day. Andrew Jackson, however, was the first to apply the "spoils system" wholesale to the national government. After his election, in 1828, but before his inauguration, Jackson's friends in the United States senate postponed nearly forty of President Adams' nominations, for the special purpose of giving that patronage to President Jackson; and, between March 4th, 1829 and March 22d, 1830, 491 postmasters and 239 other officers were removed, each of whom changed nearly all the clerks and deputies under him. This, it is estimated, involved in all more than 2,000 changes in the national civil service.

Under Van Buren as secretary of state this policy was carried into the diplomatic service. It was when con-

firmation of Van Buren's subsequent appointment as minister to England was being publicly discussed in the United States senate that William L. Marcy gave expression to what has been known as the "Jacksonian doctrine" that "To the victors belong the spoils." This practice, which through Jackson's action became a political party custom, gradually reduced the public service to partisan service, by making government offices rewards for party faithfulness instead of filling them according to efficiency and fitness. The true idea of the civil service, which prevails in almost every other country, is that at least the subordinate employees of the government should be selected for fitness and retained so long as they creditably perform their duties; in other words, that employment in the government service should be just as secure as employment by any private concern, depending only on meritorious performance of duties.

26. Civil Service Reform. The "spoils system" led to a movement for reform of the civil service. The reform demanded was to remove the power of appointment from unrestricted political control and place it in the hands of civil service commissioners, who should provide test examinations to be passed by all applicants for public office. This reform has made great headway and we now have a national and numerous state boards of civil service commissioners. It is not surprising that in trying to carry out the reform many impracticable things were attempted. In the early flush of success it was sought to make the tests for selection of public officers extremely academic. Foolish, almost silly, examinations were prepared, many of the questions having no relation to the offices to be filled. This brought considerable discredit on the examination system, and there are many defects in it yet to be removed. The "merit system," however,—that is, appoint-

ment to office solely on the basis of ability to perform the duties instead of as a reward for partisan service,—is bound ultimately to be adopted as the only safe and rational method of selecting subordinate public servants.

In certain departments of the public service, the selection must and should be for political reasons and not by test examinations. A political party that has been chosen by public vote represents public opinion, for the time being at least, and ought to be able to carry out the policies for which it stands and which the people have approved. Therefore, the responsible administration of the government and direction of public policy should be entrusted to those who share the ideas of the successful party. For this reason, executive and legislative officers and heads of departments should be selected for their political opinions no less than for their personal qualities. It is in their political opinions that they represent the public will. But the multitude of non-political offices, which call only for perfunctory or mechanical services, should be filled by examinations to test the special qualifications for the particular office.

While the responsible heads of departments should have the power to select their subordinates, it should be from among those only who are found to be properly qualified. It is beyond the power of any one man to test the merits of so large a number of applicants for office, and, therefore, a system of examinations prepared by a commission is really necessary to secure fitness.

27. The "Boss System." The so-called "boss system" is another feature of our political life that has grown up under the spoils system and as a part of it. Through having the power to distribute offices as "spoils," and handle campaign funds, local political leaders, often unscrupulous men, succeed in getting almost complete con-

trol of party organizations. Sometimes the power of these "bosses" covers only a single city ward, sometimes a whole city, and sometimes extends to an entire state. The "boss" becomes practically a petty despot through the rewards he can offer and the punishments he can inflict. By securing the appointment to or removal from office of his friends and foes respectively, he can and practically does control the nomination of candidates for public office.

In this country, as the method of making nominations, we have developed a system of caucuses, primaries and conventions. At the caucuses and primaries delegates are elected to meet in conventions to nominate candidates for popular election. The "boss," or leader, through the use of corrupt influences and sharp practice can generally dictate who shall receive the nominations, and in this way the citizens, while they have a free right to vote at the polls for whomsoever they choose among those who are nominated, have little real voice in the original selection of the nominees. The people's choice for public officers is often reduced to a selection between the candidates permitted to be nominated by the "bosses" of the respective parties. Of course, this has led to many abuses, particularly in the selection of inferior candidates, and in a multitude of ways to the corruption and degradation of our political system. It tends constantly to keep many of the best people in the community away from active participation in political life. They realize that their efforts are likely at any time to be overcome by the use of corrupt methods which they themselves will not stoop to copy, and so lose interest in the election of public officials.

28. Primary Reform. At this point in our political system an important reform is necessary. We should not make the mistake of thinking that the remedy for "boss-

ism" is to abolish political parties or abandon our democratic system; on the contrary, the remedy should come in providing better safeguards for free and decent political action. The methods of making nominations should be so changed as to give the people the same power in the caucuses and primaries, with protection of their freedom of action, that they now have in the final elections. Probably this can be done best by having candidates named by petition and voted for by secret ballot, instead of by delegates in conventions, where the delegates are exposed to all kinds of tampering through direct and indirect bribery, threats, and corrupt influences brought to bear by the "bosses."

If the nomination of candidates for public office is brought under the protection of secret voting, instead of being left to delegate conventions, it will be put beyond the power of the "boss" to control. This reform would be a very great step towards removing the degrading and corrupting feature of "bossism" from American politics. It would tend most powerfully to make political success depend upon leadership in ideas and principles, instead of upon the power to distribute official "spoils" and procure the discharge of public officials, as methods of political reward and punishment.

SUGGESTED READING.

In Bryce's "American Commonwealth," Part III., on "The Party System," and Part IV., on "Public Opinion."

In McMaster's "With the Fathers," essay on "The Political Depravity of the Fathers."

In "Orations and Addresses of George William Curtis," Volume II., Address VI., on "The Spoils System and the Progress of Civil Service Reform," and Address

XIII., on "The Reason and the Result of Civil Service Reform."

Address of Dr. Nicholas Murray Butler on "The Education of Public Opinion," delivered at Ann Arbor, Mich., June 22, 1899; especially the portion discussing political parties, from page 12 to the end.

In Goodnow's "Politics and Administration," Chapter VI., on "The Influence of the Governmental, and Particularly of the Administrative, System on the Position of the Political Party;" Chapter VIII., on "The Boss," and Chapter IX., on "Responsibility of Parties."

In Roosevelt's "American Ideals," Chapter VI., on "Machine Politics in New York," and Chapter VII., on "Six Years of Civil Service Reform."

For general reference, Eaton's "The Spoils System, and Civil Service Reform in the Custom House and Post-Office at New York," and same author's "Civil Service in Great Britain."

EXTRACT FROM READINGS.

Early Political Depravity in the United States. "Whoever reads the magazines and newspapers, whoever listens to the oratory of the pulpit and the after-dinner speeches of political reformers, is well aware of the existence of a widespread belief that politicians and legislators and public men are more corrupt to-day than they were in the time of our ancestors, three generations ago, and that the cause of our political debasement is a free and unrestricted ballot. This, most happily, is a pure delusion. A very little study of long-forgotten politics will suffice to show that in filibustering and gerrymandering, in stealing governorships and legislatures, in using force at the polls, in colonizing and in distributing patronage to whom patronage is due, in all the frauds and tricks that go to make

up the worst form of practical politics, the men who founded our state and national governments were always our equals, and often our masters. Yet they lived in times when universal suffrage did not exist, and when the franchise was everywhere guarded by property and religious qualifications of the strictest kind."—From McMaster's "With the Fathers," Chapter III.

Necessity of Political Parties. "Political parties had their origin in personal interests which it was desired to transform into public policies, and they are very far from having lost that characteristic to-day. Yet they, and they alone, make popular government possible, and the individual has a duty toward them which is neither fulfilled nor commuted by the denunciation of party abuses or by cynical contempt for party limitations and shortcomings. Men must cooperate, and to cooperate for political purposes is to be a member of a political party. One may be a member of a party formally and so hope to exercise some influence upon its politics, or he may support it generally without professing allegiance to its public declarations or loyalty to its leaders. In the latter case, he destroys almost all chance of being heard concerning constructive policies and measures, and in return gains perhaps something in the power of free and destructive criticism; although I think this on the whole doubtful. In any event, he makes, in my judgment, a distinct sacrifice and impairs his influence as a factor in shaping public opinion. I assent cordially to the doctrine that a political party is a means and not an end, and to the claim that the upright and conscientious citizen will at times be forced to separate himself from his party associations because of his objection to some party policy or to some party representative. But I hold that this ought to be an unusual and abnormal act, and never taken without due regard for

a sense of proportion and after careful weighing of the probable influence of the act upon remote as well as upon immediate ends. It is not infrequently good judgment in politics to bear those ills we have rather than fly to others that we know not of."—From Butler's address on "The Education of Public Opinion."

QUESTIONS FOR REVIEW OR DEBATE.

1. Why are political parties necessary under popular government?
2. What function is or may be filled by small or "third" parties, which do not secure actual political power?
3. What is the "spoils system"? How did it arise?
4. How did the saying: "To the victors belong the spoils," originate?
5. What principle ought to govern the selection of all subordinate public officials?
6. To what reform movement did the spoils system give rise? What has this movement accomplished?
7. What method of selection has been adopted quite generally as a result of this movement? In what respects is this method still imperfect?
8. Should the test-examination system be applied to all kinds of public servants? If not, state and explain the reason for the exceptions.
9. To what extent ought executive officers and heads of departments to have the power of selecting their subordinates?
10. Describe the "boss system." How did it grow up?
11. What effect has this system had on popular selection of candidates for office? Illustrate.
12. What reform would largely remedy this and abolish "bossism"?

CHAPTER VII.

FOREIGN POLICY.

29. Colonization. A nation's foreign policy regarding territory is largely a matter of tradition and national interest. Under ancient Rome, neighboring states were subjugated chiefly for the sake of plundering the conquered, and the motives of modern European countries in exploring and colonizing were pride of expanding boundaries and the possibility of appropriating rich natural resources and developing profitable trade.

From the point of view of political science these motives are wholly insufficient to justify an aggressive policy of conquest. National territorial expansion should come, if at all, not by force but as a consequence of the natural extension of industries and civilizing influences. This rule ought particularly to hold in the case of a country like the United States, in whose institutions monarchy and the imperialistic principle have no place. Conquest by force is contrary to the whole spirit and character of our institutions and civilization. This republic represents a new type of political civilization. It came into existence and has erected its form of government upon the basis of democracy. Democracy implies government by the people; it rests upon the conscious action of intelligent citizens. It is in this respect that the United States stands for a new type of political civilization. It has no aristocracy, no traditional "classes," no dynastic governing authority. The whole political and social structure of the

nation rests broadly upon the character and intelligence of the people.

Therefore, a foreign policy that might be beneficial to a European country and consistent with its form of government might be detrimental to the United States and tend to undermine its institutions. All monarchical powers base their institutions on dynastic and class authority, not on democracy. Colonization may be a consistent and even natural part of the policy of such nations. It implies a political system in which a part is permanently in authority and other parts in various degrees of dependence. Whether or not colonization will be a benefit to a new country or to the colonizing nation will depend upon the previous condition of the natives in that country and the political advancement and liberality of the colonizing power. A country would have to be very low indeed to be benefited by subjugation to Russia, for instance; because the best Russia would do in such a case would be to take its own institutions, characterized by the narrowest religious and political despotism, into the new colony. Under English colonization, however, a country might be greatly benefited, because to take English institutions thence would in most cases be an addition to popular freedom and a stimulus to industrial development. But, even under England, a colony can have only subordinated, dependent freedom; that is, its institutions must of necessity be subject to and determined largely by the institutions of England. Such an arrangement, of ruling power and subject colony, does not conflict with the spirit and character of English institutions, which are traditionally monarchical in form, and therefore the possession of subject colonies does not react upon and demoralize either the principle or practice of government in the home country.

This is not quite the case with the United States. The very fact that our republic is based upon democracy, wholly free from any recognition of a ruling class or political subjection of anybody, precludes a policy of colonization. This does not mean that there cannot be expansion of territory by the United States, but it means that if we are to maintain our new and distinct type of democratic institutions the republic can expand only along the lines of democracy. That is, we can add new territory and new people only as fast and in such a manner as will permit the preservation at home and extension throughout the added territory of the principle of democracy.

30. Annexation. Colonization is distinctly a violation of the principle of democracy. For us, territorial expansion should take place only through annexation. Any territory over which it becomes necessary or advisable to extend our authority should be annexed to the republic, to share, at least ultimately, in our institutions and government. A democracy should have no permanently dependent political wards. The republic may properly expand, but it should expand as a republic, by the extension of its democratic features, sooner or later, to all that come under its authority. The very nature of our institutions forbids expansion on any other basis.

It is often assumed that political rights are natural and inalienable, a part of man's birthright everywhere. This is political sentiment, not political science. Political rights depend upon fitness to participate in the government with safety to the interests and welfare of the whole community. Democratic government is a matter of slow evolution. It has taken centuries upon centuries to make the most advanced people fit for self-government. A certain standard of fitness has always been demanded as the condition of sharing in government, from the time

when anybody outside the autocrat and his court was given any voice at all in the matter. Common prudence and the safety of orderly political institutions have compelled this, and nowhere in the world, not even in the United States, has complete democracy yet been established. Several of our states have educational and taxation qualifications for voters, while only in a few western states are women as yet permitted to vote at general elections. Removal of the restrictions on any class comes only in proportion as it becomes manifest that the welfare of the community will be promoted, or at least not injured, by admitting them to the suffrage.

For the same reason, a democracy cannot annex alien groups of people who are unfit for the duties and responsibilities of self-government without injuring its own civilization. Neither can it annex them and withhold the rights of democracy from them without violating the vital principle of its own institutions. Therefore, while expansion is a proper and natural movement for the republic, it should be by annexation of such populations only as are industrially and politically fit for citizenship. Industrial fitness means that the new people must have reached a sufficiently high plane of industrial efficiency and standard of living not to have a demoralizing and degrading influence on the industries and labor of our own country. Political fitness means that they shall at least have demonstrated some capacity for orderly self-government. No people that have not at least established the wages system and right of free contract, and some degree of representative government, can be annexed to this republic without endangering the quality of our civilization. If circumstances compel us to take possession of alien groups, unfit for American citizenship, we ought either to hold them only tentatively, aiding them towards self-govern-

ment and independence, or, if only outright annexation proves feasible, spare no effort or expense to make them fit for at least the form of government of our territories within the union, and so avoid any serious departure from our political system, in theory or in practice.

31. The Monroe Doctrine. As a part of this idea of maintaining the democratic principle intact within certain group limits, the United States has long taken the position of using its influence to protect the growth of democratic institutions in the western hemisphere. The so-called "Monroe doctrine" was first proclaimed in President Monroe's famous message to congress in 1823, declaring that we should view any attempt by a European power to destroy the independence of any of the American republics as "the manifestation of an unfriendly disposition toward the United States." This has remained our attitude ever since. It does not mean that we proposed or do propose to drive out all monarchical authority from the western hemisphere, but simply that there shall be no foreign interference with republics once established here, and that just so fast as any people on the American continents shall progress towards the establishment of independent democratic government they shall have the encouragement and at least moral support of this republic. In other words, it may be said that the highest mission of the United States in political civilization is to perfect its democratic type of government, and the Monroe doctrine is that we shall lend our protection and encouragement to all who are struggling for the same end, within the range of our active and legitimate influence.

It was under the influence of the Monroe doctrine that the United States helped Cuba throw off the yoke of Spain, because Spain had manifestly outlived its power to maintain order and decent government in Cuba. To have

converted Cuba into a colony or annexed it to the United States would have been a violation of our essential democratic principles, but to free the island from Spain and set it on the road to self-government and independence was a natural and inspiring outgrowth of those principles, and the most advanced step this country has ever taken in practical application of the Monroe doctrine.

SUGGESTED READING.

In McMaster's "With the Fathers," the first essay, on "The Monroe Doctrine."

In Curtis' "The United States and Foreign Powers," Chapter VII., on "The Monroe Doctrine," and Chapter XIII., from page 194 to end of chapter, on the purchase of Louisiana.

In Roosevelt's "American Ideals," Chapter XI., on "The Monroe Doctrine."

In Jordan's "Imperial Democracy," Chapter II., on "Colonial Expansion."

In Giddings' "Democracy and Empire," Chapter XVI., on "The Consent of the Governed."

EXTRACTS FROM READINGS.

Colonialism and the American Republics. "At best, the inhabitants of a colony are in a cramped and unnatural state. At the worst, the establishment of a colony prevents any healthy popular growth. Sometime in the dim future it may be that all the English-speaking peoples will be able to unite in some kind of confederacy. However desirable this would be, it is, under existing conditions, only a dream. At present the only hope for a colony that wishes to attain full moral and mental growth, is to become an independent state, or part of an independent

state. No English colony now stands on a footing of genuine equality with the parent state. As long as the Canadian remains a colonist, he remains in a position which is distinctly inferior to that of his cousins, both in England and the United States. . . .

"The history of most of the South American republics has been both mean and bloody; but there is at least a chance that they may develop, after infinite tribulations and suffering, into a civilization quite as high and stable as that of such a European power as Portugal. But there is no such chance for any tropical American colony owned by a northern European race. It is distinctly in the interest of civilization that the present states in the two Americas should develop along their own lines, and, however desirable it is that many of them should receive European immigration, it is highly undesirable that any of them should be under European control."—From Roosevelt's "American Ideals," Chapter XI.

True and False Expansion. "Colonial expansion is not national growth. By the spirit of our constitution our nation can expand only with the growth of freedom. It is composed not of land but of men. It is a self-governing people, gathered in self-governing United States. There is no objection to national expansion where honorably brought about. If there were any more space to be occupied by American citizens, who could take care of themselves, we would cheerfully overflow and fill it. But colonial aggrandizement is not national expansion; slaves are not men. Wherever degenerate, dependent or alien races are within our borders to-day, they are not part of the United States. They constitute a social problem; a menace to peace and welfare. There is no solution of race problem or class problem, until race or class can solve it for itself. Unless the negro can make a man of

himself through the agencies of freedom, free ballot, free schools, free religions, there can be no solution of the race problem. Already Booker Washington warns us that this problem unsettled is a national danger greater than the attack of armies within or without."—From Jordan's "Imperial Democracy," Chapter II.

QUESTIONS FOR REVIEW OR DEBATE.

1. Through what forces ought national territorial expansion to come, if it comes at all?
2. Why is this rule, as opposed to expansion by conquest, especially important in the case of the United States?
3. Why would a colonial policy be dangerous for this country to adopt, while perhaps entirely safe for European monarchies?
4. Under what conditions may colonization be a benefit to the country colonized, and when the opposite? Illustrate.
5. Under what conditions only may an annexation policy be undertaken with safety by a republic like the United States?
6. What principle always has and must govern the right of people to participate in government? Give reasons for this.
7. What bearing has this fact on the annexation by our republic of unfit alien groups?
8. What two important qualifications ought an alien people to possess before being made part of the American republic? What do these qualifications include?
9. Where circumstances compel us to take possession of alien groups, what two alternative policies present themselves?
10. What is the Monroe doctrine?
11. How and when did it originate?
12. What may be considered the highest mission of the United States in political civilization, and in what way does the Monroe doctrine extend this mission?
13. Explain the relation between the Monroe doctrine and the Spanish-American war.

CHAPTER VIII.

PROTECTION.

32. The Protective Principle in Society. In the opening chapter of this volume it was explained that all progress and effective action in society takes place in various kinds of groups. This is true in every department, the family, church, social life, industry, the political party, the town, city, state and nation. The human race cannot advance simultaneously and at the same rate. Some portions are always moving ahead, some following, and at times there are races and groups that are standing still or even dropping behind. The progress of the whole race, therefore, is to be looked for in the progress of the numerous groups that compose it.

Each of these groups has something peculiar to itself which it is to the best interests of all mankind to have preserved and developed. In the case of cities, for instance, the great special feature is close community life; and to preserve and develop the best features of this close association of human beings requires preservation of order, protection of property and person, healthful homes, good sanitation, rapid and easy transit from point to point, ample opportunities for the education of children, etc. To secure all these objects, public interference is clearly necessary, and this interference takes many different forms. Some of the measures adopted are purely for economy and convenience, some are to stimulate higher standards of life, but the majority are distinct-

ly protective in character. The police force is protective against crime and disorder, the board of health is protective against filth and disease, the public schools are protective against ignorance and bad citizenship. In proportion as these protective functions are performed, municipal civilization is advanced, and, through that, the welfare of the state and nation, of which cities are such important parts.

The nation sustains exactly the same relation to world civilization. As we have already seen, the nation is the largest definite group through which it is feasible, thus far at least, for men to act together with any general unity of purpose and effort. Whatever is done for human progress must be done within or by these groups. If the development of the nation is to be neglected on the theory that no section should move forward unless the whole race can go with it at the same time, then no progress can ever be made.

To say that each nation ought to attend chiefly to promoting its own welfare does not, of course, mean that it may properly do this by forcible conquest, extending its borders at the expense of some other nation, or trying to strike down the success and prosperity of another country in order to build up itself. It means simply that each nation ought to devote itself chiefly to improving the material, social, intellectual and moral civilization of its own people. It can do this many times more effectively than it can perform the same service for any other group; therefore, in this way it does the best work of which it is capable for the civilization of the world.

How each nation can best promote the civilization of its own people depends upon the conditions within itself, and its relative position in the family of nations. The general principle is that each nation should as far as possible

encourage the opportunities for development of the best conditions and tendencies within itself, and guard those opportunities from any degrading or undermining forces. The individual should be left to seize upon and develop these opportunities, according to his personal choice, capacity and energy; but the stimulation and protection of *opportunity*, in the broadest sense, within the nation, is beyond the single individual's power; it is a task demanding the joint action of the whole group. In other words, it is a proper duty of the state.

This principle is so much broader than any merely local customs tariff policy that the latter is not even essential to the idea of protection at all. The protective principle may in some cases actually call for a free-trade policy, as we shall point out later. Its application will differ according to circumstances, just as the laws of health require the most diverse treatment and regimen with different individuals. The guiding rule is that protection is needed only by the higher and superior against the lower, which, though inferior in all the points that mark real progress, is the more powerful in brute competitive struggle; just as the jungle beast is more than a match for an unarmed man. Barbarism needs no protection against civilization, but civilization does need protection at every point against barbarism. The peaceable, industrious citizen needs the protection of the state against criminals; an intelligent, self-governing nation needs protection against ignorance, corruption, and anarchy.

33. Theory of Tariff Protection. Under modern conditions of industry, where wage and salary earners and their families compose about three-fourths of the entire population, the welfare and civilization of the nation rest chiefly upon the working, living, educational,

social and moral conditions and opportunities of this great wage-earning group. Protection is needed against any influence from any quarter that tends to lower the standard in any of these respects.

The standard of living of the wage-earning population is high according to the variety and quality of their usual, customary needs, habits and social experiences and the persistence with which they insist upon keeping up this standard. The surroundings and opportunities of people have a powerful influence on their ideas, habits and energy in all these respects. A nation whose people are engaged chiefly in pursuits like agriculture, mining and forestry, which require isolated, solitary life, contains but little variety and stimulation, but where these pursuits are plentifully intermixed with a multitude of manufacturing and artistic industries it means that people are living together in communities, or at least in close touch with these centers of civilization, and there is abundant social intercourse, wide variety of activities and tastes, and a high development of intelligence and character throughout much the greater part of the community.

Therefore, no matter how rich the natural resources of a country may be, for a nation to devote itself exclusively to developing those resources and sending the materials elsewhere to be manufactured, is a serious error. It assumes that, no matter what their social surroundings and influences, men will demand and receive for their products enough wealth to give them all the inspiring, civilizing and refining features of life, but this is a mistake. Beyond providing for physical necessities, the amount and variety of a people's consumption depends upon the kind of social and psychological influences with which they are surrounded. Without a suggestive and stimulating environment, men do not know or care about these higher

and finer phases of civilized life and will not insist upon receiving, in return for their labor or products, enough to procure them. This is the chief reason why immigrants from rural Europe are willing to work, for a while at least, for half what an American laborer would demand for the same service. Under deadening, monotonous surroundings, men become mere productive drudges, instead of enlightened social beings.

The state may properly, therefore, lend encouragement within just and reasonable limits to the development of manufacturing and artistic industries within the nation, even though for a time this may involve some actual loss in dollars and cents. To develop such industries means to build up cities and towns all over the country, between which commerce and travel grow up, and from which social, educational and civilizing influences radiate in every direction. This serves to start the engines of progress and rapidly develops a large market right at home, which soon calls into use superior industrial methods; so that the net result becomes an economic gain to the nation as well as a broad development of its social civilization.

From this point of view, the economic waste that a customs tariff policy may temporarily cause is an investment in civilization, just like the money paid for other forms of protection, such as police, law courts, schools, sanitation and clean streets.

A scientific tariff system does not mean simply a selfish warfare upon the industries of other nations, though it may oblige them to look more carefully to stimulating the consuming capacity of their own people as a market for their industries, rather than depending chiefly on markets abroad while neglecting the wage conditions of their own consumers at home.

The world is fast reaching the point where new and larger markets cannot be found merely by opening up new countries. Future market expansion will have to come chiefly by the way of higher wages (and hence greater purchasing power) of the masses of population in all countries. Inventions and machine methods are going all over the world and each nation is tending more and more to do its own manufacturing, so that expansion of the people's consuming power will steadily become more and more necessary to the progress of industry.

34. The Problem of Tariff Rates. When and to what extent may a nation properly encourage the diversification of its industries? If the country is new, the protection should be designed to call into existence as large a variety of industries as the natural conditions of that country will reasonably permit. To do this, the tariff rates must be equal to the difference in the cost of production in the new country and its most severe competitor. This for a time will cause higher prices, to the extent at least that industries in the new country are less efficiently developed and organized than in the old, and perhaps, in addition, to the extent that wages are higher in the new country than in the old. After a time, the expansion of the market and general growth of the country require more efficient and improved industrial methods, until finally the machinery, equipment and methods become practically as good as and perhaps even better than those of the older competitors.

Whether any further protection will then be necessary depends upon whether, after the machine methods have become uniform, the labor or wage cost is higher in the new country than in the old. If it is not, then no tariff is needed, at least until demands arise for a higher wage level which cannot be granted by the employers without

some additional protection. But if, in the development of a new country with new social conditions, a higher standard of living has been established, wages are certain to be considerably higher than in the older countries, and in such a case, in order to maintain the superior social conditions which these wages make possible, the tariff should be continued to the extent of the difference in the labor cost, after the machine methods have become uniform. In some industries, both the machine cost and labor cost may become less than abroad, by reason of superior efficiency, even with higher wages, and in such cases a tariff ceases to be necessary. This has long been true in England, for reasons explained in Chapter X.

In the case of agriculture, whether tariff protection is necessary or not depends upon whether the agricultural population of a country has established a standard of living and wages that would be injuriously affected by competition with the products of other agriculturists of a less advanced standard. Here, as in manufactures, the productive methods may become enough superior to offset the higher labor cost, so that no protection is required. The wisdom of offering protection to build up a new agricultural industry depends upon whether its existence will tend to draw manufacturing industries into the rural sections, to be near these new sources of raw material supply, and so promote the growth of new centers of urban civilization throughout the country, instead of leaving all these industries to concentrate along the seaboard as is generally the case when raw materials have to be imported. Of course, protection to agriculture is useless in the case of a product or products wholly unsuited to the soil and climate of the country in question.

In any event, it is the social civilization of the nation, rather than anybody's interest or advantage in a par-

ticular industry, that should govern the action of the state in encouraging different lines of industrial development. Needless to say, this principle is frequently violated in the making of tariff schedules. Special and local interests sometimes obtain a degree of tariff encouragement not warranted by the resulting advantage to the community at large, and this has done much to bring the protective policy itself into disrepute. The efforts of statesmen and force of public opinion should be directed to preventing these abuses while preserving whatever general benefits may be derived from a scientific application of the protective principle.

35. Protective Principle May Require Free Trade.

In some cases the protective principle itself may require a free-trade policy. Where a country is so low in civilization that the people are ignorant of all except a few common objects of consumption, there would be no market for the products of new industries if they were to be protected. What is needed under such circumstances is to introduce and make the people familiar with a large variety of products, until a market for them is created, and, to promote this, free trade is necessary. When a home market once exists, the development of domestic industries to supply it may be encouraged by such degree of protection as the conditions make necessary.

Therefore, for example, the protective principle might at the same time demand free trade, or the "open door," for the Philippine Islands, as the first step in their industrial and social uplifting, and protection of the high-wage standards and opportunities of the United States against the products of cheaper labor from any quarter of the globe. In other words, the lower needs not to shut out but to give free access to the higher, while on the other hand each new and higher plane that is reached in civili-

zation needs to be safeguarded from any undermining influences that may come from groups which have not yet attained the same level.

SUGGESTED READING.

In "Principles of Social Economics," the first six sections of Chapter III., Part IV. (to page 342), on "The Principle of International Trade;" discussing the general aspects of the protective and free-trade theories.

In List's "National System of Protection," Chapters VII. and VIII. of Book II., treating respectively "Of Manufacturing Industry, and of the Personal, Social and Political Productive Forces or Powers of a Country," and of "Manufacturing Industry and the Natural Productive Forces of a Country."

For historical reference, Taussig's "The Tariff History of the United States."

EXTRACT FROM READINGS.

Social Influence of Manufactures. "Manufactures are the daughters of science and the fine arts, which are, in their turn, supported and maintained by the industrial arts. How little the recourse of the primitive farmer to science or to art, how little he wants their aid for the construction of the coarse implements he employs. Of course, it is by the aid of agriculture and the profits it furnishes, that from the beginning man was able to devote himself to science and the fine arts; but, in the absence of manufactures, science and art have been confined exclusively to the ranks of a favored few, and their beneficent influences have never reached the multitudes. There is hardly a manufacturing operation which is not connected with physics, mechanics, chemistry, mathematics, or drawing. There is no progress, no discovery in the

sciences which does not improve and transform a hundred branches of industry. In a manufacturing state, consequently, science and art must become popular. The want of culture and instruction in the way of written treatises and expositions experienced by a great number of persons called to the application of science to the arts, induces men of special talent to devote themselves to the professions of teachers and writers in these departments. The competition of these talents, added to a great demand for their services, induces a division and a combination of scientific labors which has a happy influence, not only on the development of science, but on the progress of the fine arts and the industrial arts. The effects of these improvements are soon extended even to agriculture. In no country are agricultural machines and implements more perfect, and in none is agriculture in so advanced a state, as where manufacturing industry is flourishing. Under the influence of the latter, husbandry becomes itself a manufacture, a science."—From List's "National System of Protection," Chapter VII. of Book II.

QUESTIONS FOR REVIEW OR DEBATE.

1. Why is the highest development of each national group most important to world progress?
2. Mention some of the familiar forms of public interference with private freedom, within the nation.
3. Of what general character are most of these forms of public interference, and how are they justifiable?
4. Just what is meant by a nation attending first of all to its own development?
5. What distinct lines of effort belong respectively to the state and to the individual, in this national development?
6. What is the general principle determining when and where a protective policy is needed?
7. Why does the superior need protection against the inferior?
8. Explain the effects, respectively, of purely rural and of

mixed agricultural and manufacturing industries on the social character and civilization of a nation?

9. In the light of this, what is the chief justification of a protective tariff policy?
10. If this policy involves a temporary economic waste, may it still be a wise one to adopt? Mention some other forms of public expenditure justifiable on the same ground.
11. Does a tariff policy necessarily mean corresponding injury to other nations? What line of useful policies may it oblige them to adopt?
12. To what source will the world's industries more and more have to look for future market expansion? Explain this.
13. What rule should govern the early imposition of tariff duties in a new country?
14. After these industries have become well established, under what conditions may a tariff still be necessary, and to what extent?
15. What rules should govern the imposition of a tariff to develop new agricultural industries, and how should the tariff rates on agricultural products be determined?
16. Violation of what general principle has often brought the protective policy into disrepute?
17. Towards what end should statesmanship and public opinion strive, in this connection?
18. Explain under what circumstances the protective principle may require a free-trade policy. Give illustrations.

CHAPTER IX.

PROTECTION—*Continued.*

36. The Tariff and Prices. The effect of tariff duties upon the prices of commodities has been one of the most sharply disputed points in the whole tariff discussion, and a great source of confusion and error on both sides. It is generally assumed by those who are opposed to tariff protection that the whole amount of a duty is added to the price paid by consumers for the commodity. This is manifestly true in some instances, and therefore it is stoutly insisted that it is true in all. On the other hand, it is commonly urged by protectionists that none of the tariff is added to the price but that all of it is paid by the foreigners who send goods here. There are some cases in which this is true, and hence the protectionists insist that it is true in all.

Neither of these contentions is correct. The confusion arises through a misunderstanding of the economic law of prices. Of course, it is true that a direct tax levied upon any article is practically the same as an increase in its cost of production. If it costs \$1 to manufacture an article and the government imposes a tax of 10 cents upon it, the effect of the tax is exactly the same as if the cost of the raw material or of the labor had been increased 10 cents. The total cost is \$1.10, no matter whether the additional 10 cents is due to the tax or to any other added expenditure. But it does not necessarily follow from this that a duty of 10 cents on an imported article would add

10 cents to the price paid by the consumer. The duty might add 10 cents to the price, or it might add anywhere from one to 10 cents, or it might add nothing at all.

37. Economic Law of Prices. In order to see just how a tariff will affect prices under different circumstances, it is important to understand the economic law of prices. Prices are determined by the cost of production;* but this does not mean the cost of producing each separate article, nor the average cost of the general supply of articles, but it is the cost of producing the most expensive portion of the general supply that the market requires. In other words, prices are determined by what economists have begun to call "marginal cost."

The price, thus determined, is practically uniform, for all parts of the supply sold in the same market, no matter where the goods are made; that is, of course, it is uniform for all goods of the same quality, measurement, etc. Thus uniformity of prices on the basis of the cost of the dearest portion of the supply is what causes the great differences in the profits of different competitors. The price being the same for all, the largest profit is, of course, reaped by those whose cost of production is the smallest. Thus, if one manufacturer can produce shoes of a certain grade at a cost of \$2 a pair, and some of his competitors can produce them at \$1.90, others at \$1.80 and others at \$1.50, and all the shoes can be sold in the market, the price will have to be \$2, in order to cover the dearest producer's cost. Competition will constantly tend to keep the price from rising above \$2, but it must reach at least \$2, so long as the dearest producer's supply of shoes is required. The price being uniform on that basis, the other producers will have 10, 20 and 50 cents a pair, respectively, as sur-

* See "Outlines of Social Economics," Chapters IX. and X., for explanation of the law of prices.

plus or profit. This law holds good whether it is a case of prices in a local market, or a national market, or an international market.

38. How Tariff Duties Affect Prices. If a direct tax of 25 cents a pair were placed upon all shoes sold in the American market, it would raise the price by that much, because it would increase the cost of the dearest portion of the supply to exactly the same extent that it increased the cost of all the others. But this is not necessarily the case with an import duty. A tariff tax is levied only upon that portion of the supply which comes from foreign countries. Whether that will raise the price at all, or raise it by a part of the amount of the tax, or raise it by the full amount of the tax, will depend entirely upon how much it increases the cost of the dearest portion.

To illustrate : suppose the cost of producing the dearest required portion of an article in the United States is \$1 a pound, and it can be produced abroad for 70 cents, and a duty of 40 cents a pound is levied upon the foreign product. Would that increase the price to American consumers 40 cents? No. The dearest portion of the supply of that article is the American product, which it costs \$1 a pound to produce. Adding 40 cents duty to the foreign product raises its cost to \$1.10 a pound, and therefore the foreign product cannot be sold in the American market at less than \$1.10 a pound. This makes the foreign product now the dearest portion, \$1.10 as compared with \$1 for the American product. If our market requires and will take both the foreign and the American product, then the foreign product will fix the price, because it represents the point of greatest cost in the total supply furnished, and the price will be \$1.10 a pound. Thus the duty of 40 cents a pound will increase the price to the American consumer by only 10 cents a pound, be-

cause it takes the first 30 cents of the duty to raise the foreign cost up to the level of the American. All that is added up to that point does not affect the price. It is only the 10 cents by which the duty raises the foreign cost above the American cost that affects the price.

If the tariff on this article were 20 cents instead of 40 it would not affect the price at all, because the cost of the foreign product would still be 10 cents below the American cost. If the tariff were 30 cents it would not affect, or at most very slightly, the price, because it would only make the foreign cost the same as the American. But an additional 10 cents would raise the cost of the foreign above the American, making the foreign instead of the American the dearest portion, and to that extent raising the price. In other words, under these circumstances, 30 cents of a 40-cent duty would be paid by the foreign producer and 10 cents by the American consumer.

An example of this is the case of raw wool. Under the tariffs from 1881 to 1891, for instance, the duty on washed wool was 20 cents a pound during the first nine years, and in 1890 and 1891 it was 22 cents a pound. At no time during that period was the price of washed wool in this country more than $7\frac{1}{2}$ cents a pound higher than in London, and for three years it was actually lower. The average for the eleven years was only about 2 cents higher here than in England, so that about 18 of the 20 cents duty was paid abroad and only 2 cents by American consumers.

To use another illustration from American experience, raw sugar is a product on which the entire duty is added to the price. This is because the American product of sugar is not an essential and necessary part of the supply we require, and therefore the price is determined

abroad, because the dearest portion of the necessary supply is produced abroad. Consequently, whatever duty is levied on sugar rests upon the dearest portion of the supply, and all of it is added to the price.

Then, as already pointed out, there are some cases in which none of the duty is added to the price. If the imported portion of our entire supply of a commodity is so small as not to be necessary, because it could easily be replaced by additional home supply, a tariff which raises the foreign cost above the American will not raise the price; it will simply prevent the foreign supply from being imported at all. Or, if the duty is less than the difference between the American cost of production and the cheaper foreign cost, the duty will simply subtract from the foreigner's profits; it will not raise the price to American consumers. An illustration of this is the case of coal imported from Nova Scotia into New England. The tariff law of 1894 reduced the duty on coal from 75 cents to 40 cents a ton, but experience proved that it made no difference in the price of coal. The reason is that the cost of producing coal in Nova Scotia and getting it into New England was less than the cost of mining similar coal in Pennsylvania and getting it into New England; the difference being more than the amount of the tariff. Since reducing the tariff did not affect the dearest portion of the required supply, it did not affect the price. The dearest portion of the supply was in this country, and to reduce the duty simply reduced the cost of supplying coal from Nova Scotia and increased the profits of the Nova Scotia mine owners.

Thus it is not true that a tariff always affects prices in the same way. Sometimes it does not affect them at all, but the whole of the duty is paid by foreign importers. Sometimes the whole of the tariff is paid by domestic con-

sumers, and sometimes it is partly paid by the foreigners and partly by domestic consumers. Whether it is all paid abroad, or all paid by the domestic consumers, or divided between the two, depends entirely upon whether the duty affects the cost of the dearest portion of the general supply the market will take, and, if so, how much. If it affects the dearest portion to the whole extent of the tariff, then it will all be added to the price. If it affects it to one-half or one-quarter of the duty, then one-half or one-quarter of the duty will be added to the price. If it does not increase the cost of the foreign above the cost of the home product, then none of the duty will be added, but it will all be paid abroad.

39. Government Bounties. Commodities which are exported, of course are not affected by an import duty. It is sometimes urged that such commodities should be "protected" by a government bounty on what is exported. This, for example, has been advocated with reference to wheat exported from the United States; the theory being that all the benefits from import duties go to the manufacturers who are protected thereby and that, since wheat is not imported, the only way farmers can be protected is by a bounty on what they export.

This proposition is based upon a misconception of the protective principle. That principle, in its scientific application, is that the nation shall, where necessary, secure the opportunities of its own market for its own producers, but it is no part of any sound principle in political science that a government should pay out of the public treasury a bounty to enable producers to compete in foreign markets. Protection may be necessary to preserve the wage opportunities and develop certain types of industry within a nation, but the ability to extend out and sell in foreign markets should rest upon superior pro-

ductive efficiency, and not be secured at the expense of a constant drain upon the treasury of the home country. Bounties always add to the burden of public taxation, but import duties at least contribute to the public revenues in proportion as foreign producers are able to sell in the market of the protected country.

In practical operation, moreover, export bounties would really prove of no permanent advantage to the exporters. Suppose, for example, some American exported product, like wheat, is the dearest portion of the whole supply of wheat that is being sold in the foreign market. The price of wheat in that market would be fixed by the cost of the dearest portion required, namely, the cost of supplying the American wheat. A bounty on this American wheat would be the same to our farmers as a reduction in the cost of production, and would simply enable them to compete abroad at prices cheaper than before by practically the amount of the bounty. The same force that held the price up to the level of their higher cost of production, before the bounty, would now permit it to drop to the level of their lower cost of production, made lower by the bounty. Thus the exporters would gain nothing, and the real benefit of the bounty would go to the foreign consumers in the shape of lower prices.

On the other hand, in cases where the American supply was cheaper than the foreign, no bounty would be needed, because the foreign supply would determine the price and our exporters would be making profits without any bounty assistance. A bounty would then be purely a gift out of the treasury, without a shadow of excuse, and would be a scandalous misuse of public funds. Even this donation, however, would be of no permanent benefit to our exporters. It would so stimulate the production of the given commodity and increase the quantity exported

that a corresponding portion of the more expensive foreign supply would no longer be required, and the price would fall. This might easily continue until our product drove out of the foreign market all except the cheapest portion of the foreign supply, leaving ours as the dearest portion, and so wiping out the profits our exporters were enjoying before the bounty was offered.

In brief, export bounties, which are urged as being similar in theory and effect to import duties, really act in just the opposite way. An import duty, if it raises prices at all, does so by restricting the cheaper or cheapest portion of the supply offered. An export bounty, on the contrary, tends always to nullify itself by forcing lower prices, either by cheapening the dearest portion of the supply or increasing the cheaper portion until the dearest is driven out of the market.

While the general principle of bounties is objectionable, there may be instances where bounty, given in the form of a premium for special results, may be employed as a stimulant to desirable industries. For instance, if in a comparatively new country certain products are needed it may be sound economic policy for the government to offer a bounty for the production of such commodities. This, however, can only be justified on the ground that the industry itself is of national importance; in other words, that the existence of the industry within the country, not merely the supplying of the products, is of economic and social importance. It certainly would be to the advantage of such countries as Russia and Italy, for example, to give bounties for the development of domestic manufactures within their borders. But this is in effect a premium for a special accomplishment, and both in fact and principle is quite different from export bounties.

40. Restriction of Immigration. Limiting or prohibiting the immigration of cheap labor is another phase of protective policy that may become advisable under certain circumstances. It is applying the same protection to domestic labor that a tariff is intended to afford to domestic market on the plane of the domestic cost of production, for the purpose of maintaining competition in the domestic market on the plane of the domestic cost of production, which is chiefly a matter of wages. This means that all foreign producers who desire to enter the American market must either pay the equivalent of American wages or pay the difference to the government in import duties. Restriction of immigration, when necessary, rests upon the same principle. In a new country, free immigration may for a long time be very advantageous, but, after the industrial and social conditions have settled down and become complex and interdependent, laborers of a markedly lower standard of living should not be permitted to enter and compete in sufficient numbers to retard or set back the labor standards, in wages, opportunities and general conditions, of the more advanced nation.

SUGGESTED READING.

In "Principles of Social Economics," Sections VII., VIII. and IX. of Chapter III., Part IV. These sections treat of the effect of tariffs upon prices and wages, and the effect upon less advanced countries of tariff protection applied by the more advanced.

(For additional references see the preceding chapter in this book, also the one next following.)

QUESTIONS FOR REVIEW OR DEBATE.

1. What is commonly assumed by protectionists on the one hand and free traders on the other, as to the effect of a tariff upon prices?
2. Explain, briefly, in what way economic prices are determined.
3. Mention three ways in which a duty on an imported commodity may operate, as regards prices.
4. Under what circumstances will the whole of a duty be added to the price? Why?
5. Under what circumstances will a part of the duty, but not the whole of it, be added to the price? What will determine how much of the duty will be added?
6. Under what circumstances will none of the duty be added to the price? Explain.
7. Give illustrations of each of these cases in recent American tariff experience.
8. Upon what theory are export bounties advocated?
9. In what way is this inconsistent with the general principle of protection?
10. What would be the practical effect of export bounties, in cases where the exported product is the dearest portion of the supply sold in the foreign market?
11. What would be the effect in cases where the exported product is cheaper in cost than the foreign portion of the supply sold in the foreign market?
12. Under what circumstances may restriction of immigration be necessary or advantageous?
13. How may this be regarded as an application of the protective principle?

CHAPTER X.

FREE TRADE.

41. Theory of Free Trade. The policy of free trade, or absence of all tariff or other restrictions on the importation or exportation of goods, is urged upon the theory that individual effort in industry is always more effective without any state regulation or interference than with it. This theory declares that, if left entirely free, each individual will find the place and calling in which he can produce the most at the least cost. On this principle it is held that trade will be most beneficial to all traders if they are left entirely free to buy in the cheapest and sell in the dearest markets. According to this theory, also, the true policy for every nation is to pursue those industries which the climate and physical sources of the country make most available.

In other words, if the physical conditions of the country are more favorable to forestry, mining and agriculture than to manufacture, the people of that country should become farmers, miners and foresters. They can get, it is assumed, more of the world's wealth that they require by devoting their energies to the farms, mines and forests and exchanging these products for the manufactured wares of other nations than by doing any considerable amount of manufacturing for themselves. On the other hand, those nations whose conditions are more favorable to manufacture can serve themselves and the world better by devoting their energies to manufacture, and exchanging their manufactured products for those of the farm,

mine and forest. From this it would follow, naturally, that the only way the full advantage of this division of industries can be distributed to all mankind is through absolute freedom of trade. Therefore, of course, any attempt by the state to encourage the development of a new industry is in violation of natural law and will result in more waste than gain.

42. The Real Conditions of National Welfare.

This theory is quite logical and conclusive, as far as it goes. If it covered all the aspects of the case, social as well as economic, it would be irresistible. If cheap goods were the sole or greatest item in national development and prosperity this theory would be complete. From the broader social standpoint, however, cheapness in itself is not the most important consideration. The really vital thing to be promoted is the progress of the nation in welfare and civilization, and this can only come with the increased consumption of wealth by the great mass of the people, expansion of social life and elevation of the quality of individual character. The literal money prices of commodities may be very low, and yet the people be in abject poverty and barbarism; witness China, India, the larger part of Russia, etc.

Material welfare does not depend upon, nor is it measured by, the prices of *commodities* alone. Whether goods are really cheap or dear depends upon the ability or inability of the people to purchase them, out of the incomes which the industrial system of the country normally yields. In other words, the wages (or price) of labor is of equal importance with the price of commodities. In order that the people (chiefly wage and salary earners, in modern countries) may be really prosperous, cheap prices of goods must be accompanied by high wages of labor. Cheap products with low-wage labor

never yields genuine prosperity. Progress in material welfare takes place only when these two kinds of prices, of goods and of labor, move in opposite directions. A rise in wages and a fall in prices, when the latter is due to economic cheapening of the cost of production and not to panic or industrial depression, means more wealth for a day's work, and consequently more welfare for the laborer.

The true object of a public policy is to improve the character and condition of the people. Cheap products are beneficial only when they tend to improve the condition of the people, and they do that only when there is a rise, or at least no decline, in wages. Therefore, no theory of social welfare is complete which does not recognize relatively high wages as of equal importance with cheapness of products. This aspect of the case, it must be said, is omitted from the free-trade theory.

43. How Wages Are Determined. The free-trade theory is based on the assumption that wages depend entirely upon competition; rising when the demand for labor is large and falling when it is small. It is true that competition is an important factor in fixing prices, both of labor and of commodities, but it is not true that the same amount of competition will produce the same level of prices everywhere. The great force that determines prices, under competition, is cost of production.* Competition can never force prices permanently below the cost of the dearest portion of the goods continuously required and furnished in a given market, although it can prevent prices from permanently rising above that point.

In the case of labor the law operates in exactly the same way. Cost, here, means the cost of the laborer's living. Competition among the coolies in India never

* See "Outlines of Social Economics," Chapter X.

forces wages much below 10 or 12 cents a day. Among the agricultural laborers of Russia and southern Europe, competition seldom forces wages below 25 or 30 cents a day. In the rural districts of this country, even in the South, competition seldom forces wages of adult males below 75 cents a day. In our manufacturing communities, especially in the large cities, wages in the various industries range from about \$1.25 to \$4 and \$5 a day, and competition seldom forces them below these points.

Why, under competition, do such different rates of wages in different places exist? Because the standard of living in cities and manufacturing districts is higher than in rural districts or in purely agricultural countries. This "standard of living" is not a matter of competition but of social surroundings, habits, customs and tastes. These, in any community, largely depend upon the character of the people's employments. In forestry, mining, agriculture, and similar rural industries, the surroundings are relatively crude and the social life is limited and monotonous. This mode of life establishes a relatively meager standard of living, with little variety of experiences, tastes, wants and ideas, and consequently little need of and little pressure for high wages.

44. Diversification of Industries. As pointed out in Chapter VIII., it is only in proportion as manufacturing industries are developed, bringing with them modern towns and cities, with varied experiences and increasing demands for broader social and individual life, whose influence extends throughout the whole country, rural as well as urban, that any nation is truly progressive and genuinely civilized. History teems with evidence of this fact, and gives no examples to the contrary.

In the case of countries of very low civilization, free trade may be the best means of promoting this industrial

progress. It would permit the easy introduction of commodities with which the people are unfamiliar, and thus stimulate new ideas and tastes, create a market demand for a larger variety of products, and so furnish an opportunity for manufacturing industries to grow up within the country. Whenever free trade will accomplish this it is the proper policy to adopt. In the case of a newly-settled country, whose natural conditions favor purely rural and isolated forms of industry, to the exclusion of manufacture, commerce, and the higher forms of diversified employments, statesmanship may and ought to substitute science for blind nature, and encourage, not through favoritism but by proper regulation of the conditions of competition, the growth of diversified industries, without which no nation ever made any considerable progress and none has ever reached the front rank in civilization. This regulation may also be required, as before explained, to guard the higher wage standards of one country against possible depression from unlimited competition with the labor of countries of less advanced civilization.

45. Free Trade in England. The only important country which permits free trade is England, and it is entirely accurate to say that England has made enormous progress since 1846, when this policy was adopted. In order to understand the operation of free trade in England it is necessary to know how and why it alone among the nations of Europe was able to adopt that policy. Until the fourteenth century England was among the most backward nations in Europe, but from the reign of Edward III., who imported the Flemish weavers, its policy was directed towards encouraging manufacturing industries. Protection in a wide variety of forms was applied, often crudely and mistakenly, during the next 500 years, and under this policy, bungling and unscientific

as it frequently was, England became the very nursery of diversified modern industry. After the perfection of its factory methods, in which it was half a century ahead of the rest of the world, England was able to produce manufactured commodities cheaper than any continental country, although paying higher wages. English industries then had nothing to fear from competition, and to do away with protective duties on manufactured products was as natural as to lay off one's overcoat in the spring. It was more important for England to be able to enter foreign markets than to keep foreigners out of its own market. Therefore, the duties on manufactures were removed; and also, in 1846, those on food stuffs, in order that laborers might live at less expense and so work for lower wages without being poorer, which would help English manufacturers to sell cheaply in foreign markets.

46. Reverse Experience of the United States. The experience in this country has been quite different. This republic was really a transplant from the best of English civilization, and we rapidly developed a much higher social standard and consuming power per capita than anywhere else in the world. But, like England, for the development of a well-rounded-out national life we needed manufactures and the only way we could get them was, not like England by procuring foreign markets, because we could not compete with England's highly developed industries, but in securing our home market to ourselves. Here our very advancement in social civilization was our weakness in point of industrial competition. We could not procure the cheap labor of which England had abundance, because of our high standard of living, and we could not develop our industries in the face of foreign cheap-labor competition, chiefly from England, without the application of a protective policy. England is now begin-

ning to feel the need of a restoration of this policy along certain lines, as against the continental countries, and is seriously discussing an imperial customs union, with free trade between England and her colonies and protection against all outsiders. The reason of this is that the countries of continental Europe have improved their industrial methods, practically up to the English standard, so that now the lower wages they pay gives them an advantage over England in many directions, and even enables them to sell many kinds of goods in the English market itself. A few American commodities, even, are now produced by methods so superior to the English that we can make them at a lower cost, and sell them in the English market, while paying higher wages.

47. Universal Free Trade. The question is often asked whether universal free trade will ever become possible. Its field of application may greatly increase, but so long as industrial development goes on at different rates of progress in different national groups there is little reason to suppose that protective policies will be universally abandoned: Protection in some form is likely to be required for successive new steps in social civilization. If conditions should become so universally equal that no nation was more advanced than another and hence required no guarding of higher standards, it would mean that society had become static and progress practically come to an end. It is the very fact that immature innovations, however desirable, have to fight for existence against the old, the mature, the traditional and well-established, that makes protection of the higher against the lower necessary. That is why property, education, health, sanitation, and all the higher and finer developments of civilization require either the encouragement or protection, in various forms, of organized society, against theft,

ignorance, disease, and inferior or degenerate types and conditions of industrial and social life. It is not universal non-interference but universal progress that the world most needs. If protection, in any specific instance, is not necessary to promote or safeguard this progress, then, of course, none should be afforded, and complete individual freedom should obtain. If the time ever comes when no protection is needed in any direction, it will be when there is practically no further need of government itself. Until that time, the application of various policies, as for example of free trade and protection, will be determined according to the differing needs and circumstances of each different group or type of civilization.

SUGGESTED READING.

In Willoughby's "The Nature of the State," the section on the "individualist" theory, in Chapter XII., on "The Aims of the State." This section begins on page 320 and extends to page 337, pointing out some of the errors of the extreme non-interference doctrine. (This was also suggested for reading in connection with Chapter II.)

In Ward's "Psychic Factors of Civilization," from first paragraph on page 256, in the chapter on "The Economy of Nature and Mind," to end of chapter. Here Dr. Ward points out some of the fallacies in popular impressions concerning free competition.

In Hadley's "Economics," Sections 467 to 492 inclusive, in Chapter XIII., criticising the policy of tariff protection.

For general reference, in support of the free-trade view: Trumbull's "Free Trade Struggle in England," Bastable's "Theory of International Trade," Sumner's "Protection in the United States," and Bastiat's "Sophisms of Protection."

EXTRACTS FROM READINGS.

Competition and Regulation. "Genuine competition is possible only where the contesting parties possess comparative equality of strength. Where there is not this equality a contest means not competition, with any of the resulting benefits that the fourth postulate predicates, but simply a destruction of the weaker party. It is thus possible that in many instances the interference of the state, by rendering conditions more equal, may actually promote competition rather than destroy it. Furthermore, as Professor H. C. Adams has shown in his excellent monograph, "The State in Relation to Industrial Action," law may often serve not so much to check competition as to raise its moral plane. Proof of this is to be seen in the results following from factory legislation and the regulation of the employment of women and children. . . .

"First, where the Darwinian law in its application to social man is too cruel or wasteful, or works in any way to destroy those who from the broad and highest standpoint of race improvement are best fitted to survive, to that extent the law is to be checked or regulated if possible by the organized effort of society. Secondly, where the law does not so operate as to eliminate those essentially unfit to survive, the impending cause is to be removed and the operation of the law rendered possible."—From Willoughby's "The Nature of the State," Chapter XII.

The Waste of Nature and Economy of Mind. "Nature's way of sowing seed is to leave it to the wind, the water, the birds and animals. The greater part falls in a mass close to the parent plant and is shaded out or choked to death by its own abundance. Only the few seeds that

chance to be transported by one agency or another to some favorable spot and further happen to be covered up, can grow. The most of those that germinate never attain maturity on account of hostile surroundings, and only the rarest accidents of fortune live long enough to continue the race. To meet this enormous waste correspondingly enormous quantities of seed are produced. Such is nature's economy. How different the economy of a rational being! He prepares the ground, clearing it of its vegetable competitors, then he carefully plants the seeds at the proper intervals so that they shall not crowd one another, and after they have sprouted he keeps off their enemies, whether vegetable or animal, supplies water if needed, even supplies the lacking chemical constituents of the soil, if he knows what they are, and thus secures, as nearly as possible, the vigorous growth and fruition of every seed planted. This is the economy of mind. . . .

"Individual freedom can only come through social regulation. The cooperative effects of the rule of mind which annihilate competition can only be overcome by that still higher form of cooperation which shall stay the lower form and set free the normal faculties of man. Free competition that shall be both innocent and beneficial may be secured to a limited extent in this way and in no other way. . . .

"A new and revised political economy will doubtless be largely devoted to showing, not so much the glories of competition, which society does not enjoy, as how society may conduct itself in order to secure whatever benefits competition can offer, and also how the competition that cannot be prevented can be shorn of its wasteful and aggressive features."—From Ward's "Psychic Factors of Civilization," Chapter XXXIII.

QUESTIONS FOR REVIEW OR DEBATE.

1. Upon what general theory is the policy of free trade advocated?
2. According to this theory, what should govern the character of a nation's industries?
3. What is, in reality, a more vital object to be secured than cheapness of products?
4. Through what movements only can this object be obtained?
5. Does cheapness of commodities necessarily mean that the people are well off? Give illustrations of your answer.
6. What other condition, besides mere low prices, must exist before commodities may really be regarded as "cheap"?
7. What is the free-trade theory of how wages are determined?
8. Show, by illustrations, how this theory fails to explain the great differences in wages the world over.
9. By what forces are wages really determined?
10. Upon what conditions does the standard of living chiefly depend?
11. Explain the effect of purely rural and extractive industries upon the social standard of living.
12. What social influences are introduced by the presence of manufacturing industries and multiplication of urban centers?
13. Under what circumstances may free trade best promote this growth of manufacturing industries?
14. Under what two kinds of circumstances may a protective policy be advisable?
15. How did England reach her superiority in manufacturing industry?
16. Explain how England was able to adopt free trade in 1846, while other countries could not.
17. Show how the different situation of the United States required a different policy from that of England.
18. Why is England to-day feeling the need of a restoration of protection in certain directions? What plan is being proposed to accomplish this?
19. Why is protection in some form likely to be permanently necessary for at least portions of the race?
20. Under what circumstances may universal free trade become possible?

CHAPTER XI.

WAR AND ARBITRATION.

48. Causes of War. Fighting, as a method of settling disputes, is nearly as old as the human race. War is simply the expression of the brute force of nations, arrayed against each other. Strictly speaking, armies and navies are a part of the police function of the state. They are organized and maintained to protect the community against outside foes. They employ brute force, because the attacks upon a nation by outside foes are made by brute force and must be met in the same way. The use of brute force is not necessarily evil if protection of the property and lives of the people, or overthrow of intolerable wrongs, require it. The use of brute force in any form is bad only when it is unnecessary either for defence or to secure necessary reforms. Of course, the use of brute force, whether by individuals or nations, has not always been governed by the necessity of defence or righting of wrongs.

The lower we go in the scale of civilization, the more frequent and less rational does the use of brute force become. In the earliest stages of society, fighting was one of the chief occupations. All the able-bodied male adults were fighters. When cultivation of land began, and afterwards the development of manufacturing industries and settled habitations, it became necessary for a considerable portion of the people to devote themselves regularly to industry, which meant that these at least must cease being

fighters and become producers. So fighting became the task of a special group, the army. For thousands of years armies were used, on the one hand for conquest of territory and subjugation of neighboring peoples, and on the other to repel these invasions. Conquest was the chief use to which the Roman army was put, and the armies of Europe during the middle ages were either bent on conquest or engaged in resisting it. The motive was sometimes religious domination, sometimes merely to gain territory, sometimes to support the dynastic claims of a king or a pretender.

49. Growth of Industrialism, Decline of Militarism.

During the middle ages war was almost continuous. Industrial freedom and individuality were not recognized; indeed, industry was regarded, both under ancient Rome and in the middle ages, as degrading. Despite this, it grew steadily in power and influence, and with it came new moral and social forces which converted barbarism into civilization. The development of manufactures and trade divided society into groups, each with special industrial interests, which prospered only under peaceful relations, and hence were entirely opposed to war. The growing importance of these peaceful industrial interests called for limitation of the fighting function, or militarism. A part of the military force came to be required for domestic purposes, preservation of order and protection of property. This led to the development of police systems, which did not come until the later middle ages. This was a further subdivision of the war function. At first it was a grouping off of some of the population to be fighters and some to carry on industry; now it was a division of the fighting group, some to maintain order at home, others solely to protect the nation against foreign aggression.

With the continued industrial expansion of the community, and its natural accompaniments of greater individuality among the people, larger variety of ideas and opinions both in civil and religious affairs, and broader social and moral development, militarism has tended gradually to become the servant instead of the master of national activities, at least in the more advanced nations. As civilization reaches higher and higher planes, with more subtle and complicated relations and more ethical views of human welfare, war becomes less and less excusable. Furthermore, with the tremendous development of the arts of war, it becomes more and more disastrous. For both these reasons, it is the most advanced nations, though the most powerful and best equipped, that are to-day most reluctant to go to war. They have the most to lose and least to gain by war. On the other hand, it is the nations of lower types of civilization that are readiest to go to war. The advanced nations, to be sure, prepare for war on the largest scale, but use every device to avoid actual conflict. The relations between the great powers in the acute Chinese complication of 1900 was a striking illustration of this. A century ago, when the economic interests and ethical ideas of Europe were much less developed than now, there would probably have been a general war in which every nation of importance would have tried to seize a part of China. In 1900, with every nation richer and stronger, no one of them dared to open a war of conquest. Those nations which would gladly do so but dared not, like Russia, are the most backward, industrially; while those which are industrially the most advanced, like England and the United States, have no desire for military conquest, and will resort to militarism only when the highest ultimate interests of national safety and welfare demand it.

50. What May Justify War. The question of war or peace is being rapidly removed from the power of ambitious kings to decide, by whim or caprice, and determined instead by the broader interests of civilization. Wholesale disarmament by the more advanced nations is wholly impracticable so long as other powerful nations still remain in the brute-force era, but it is becoming a recognized principle in international relations that war for mere conquest is a crime against civilization no longer to be tolerated. The only bases upon which war can be justified are, to preserve national existence, protect industrial interests and individual rights, and maintain opportunities for the free development of liberal and humane civilization. The army of one nation may justly enter the territory of another when necessary to protect the interests and rights of the citizens of the invading power, especially if those citizens have been invited or peacefully permitted to enter that country, carry on trade and build up industrial and other property interests therein. Industry is the precursor of civilization. Wherever peaceful industry is permitted to enter, it is the duty of civilization and the obligation of the highest morality to protect it from assault, oppression or confiscation.

51. Arbitration. The next great step, now being taken, toward the disappearance of militarism and prevention of war is arbitration. This is practically the adoption of the civil judicial system to settle disputes between nations; submitting the issue to a board of judges agreed upon by the nations concerned. In a few instances already, such disputes have been successfully disposed of by arbitration, but we are still far from any general adoption of this method. Arbitration is a matter of further industrial and moral development. It would become general if all the great nations became sufficiently

advanced in moral civilization that they would not even consider war except for a cause so just that they would be as willing to trust it to a fair tribunal as to an appeal to force. Even then, there would be no way of compelling the defeated party to accept the decision, except by the united force of the other nations. Arbitration may become general even sooner, by agreement between all the advanced nations to combine and prevent by force any nation from waging war for any purpose of spite, religious prejudice or territorial conquest, or even trade monopoly, or for refusing to arbitrate.

But in reality we cannot be sure of the reign of universal peace until all the nations have become so closely bound together by ties of common industrial interest and social friendliness that disputes sufficient to provoke the dire extremity of war cannot possibly arise. The road to abolition of war and substitution of arbitration leads through the labyrinth of industrial development, social and moral expansion. The surest way to establish peaceful civilization is not primarily to abolish standing armies and curtail navies, but to stimulate the sources of industrial welfare and individual character development among the masses of the people. Only when the people of the nations have become prosperous, intelligent and free, and moral enlightenment has come to dominate in public policy, will war and militarism entirely disappear.

SUGGESTED READING.

In Maine's "International Law," Lectures VII., VIII. and XII., on "The Mitigation of War," "The Modern Laws of War," and "Proposals to Abate War," respectively.

EXTRACT FROM READINGS.

The Limited Feasibility of Arbitration. "The want of coercive power is, in fact, the one important drawback which attends all attempts to improve international law by contrivances imitated from the internal economy of states, by something like legislation, and by something like the administration of law by organized tribunals. . . War is too huge and too ancient an evil for there to be much probability that it will submit to any one or any isolated panacea."—From Maine's "International Law," Lecture XII.

QUESTIONS FOR REVIEW OR DEBATE.

1. How old is war? What have been some of its chief general causes?
2. In what stages of society are wars waged for least justifiable reasons? Why?
3. What was the first separation of industrial from military occupations? How did this come about?
4. How did the growth of industrialism bring about a subdivision of the military function, and what was the subdivision?
5. What kind of nations to-day are most reluctant to go to war? Give two reasons for this.
6. If the most civilized nations are in reality least military, why do they prepare for war on so vast a scale?
7. What example of the effect of industrialism upon militarism was furnished by the Chinese crisis of 1900?
8. What kind of wars may be said now to be regarded by civilized nations as morally indefensible?
9. Mention three great causes which, in the last extremity, may justify war.
10. What is arbitration? Why is it not in general use?
11. Under what conditions might it be brought into general use?
12. What is, however, the only certain way of ultimately abolishing war and militarism? Explain fully.

CHAPTER XII.

TAXATION.

52. Objects and Kinds of Taxation. Taxation is the government's method of raising money for its own support, and to provide various public institutions or carry on public enterprises for the general welfare, such as the army and navy, courts of justice, the police, public schools, sanitation, public highways, parks, libraries and museums, etc.; some of which, of course, are more often furnished by private enterprise than by the government. The money to be raised for these purposes is collected at regular intervals from the citizens in proportion to their property or incomes, or in equal sums from each voter (poll tax), or according to fixed rates on specific kinds of merchandise or articles in common use. Other kinds of taxes are levied, not primarily to raise money, but to encourage or discourage institutions, interests, social customs and tendencies, according as they may be considered desirable or undesirable features in the community.

Taxes imposed to raise money for the government are revenue taxes; those imposed for the second class of objects named may be called protective. Sometimes the two are combined, but theoretically they should be levied with reference to the principal object in view, whether revenue or protection. If protective taxes do not protect they are a failure, although they may yield revenue. Some protective taxes may yield revenue, others may

yield none ; but this is entirely a secondary matter. Such taxes are a success or failure according as they accomplish the object of protection intended.

For instance, the ten per cent. tax imposed by our national government on the note circulation of state banks is a protective tax. Its object is to protect the business of the country against the issuing of great quantities of different kinds of paper money, all varying in value and of uncertain security. The tax of ten per cent. makes it unprofitable for state banks to issue any circulating notes. It has yielded almost no revenue, but it has completely accomplished its protective purpose. The tax on dogs is intended chiefly to restrict the number of dogs. Incidentally it yields some revenue, but the higher the tax the more protective it is against dogs and the less revenue it is likely to yield. High license for liquor selling is another protective tax. It is primarily intended to restrict the number of saloons, and may or may not increase the amount of revenue. Taxes whose object is not revenue but to protect the community against some industrial disadvantage or bad social influence should be levied with reference to this protective feature, regardless of whether it yields more or less revenue or any revenue at all.

Revenue taxes, on the other hand, should be levied with reference to their capacity for yielding the greatest amount of revenue with the least cost of collection and inconvenience to society. In order to get the greatest amount of revenue they should be levied in such a way as to make evasion impossible. In order to involve the least cost in collection and inconvenience to the community, they should be so levied as to require the smallest possible amount of inquisitorial prying into the private affairs of citizens. This is always objectionable and leads to a multitude of devices for evasion, misrepresentation, per-

jury, and a whole series of unpatriotic and immoral practices.

53. Defects of Existing Taxation Systems. The objection to nearly all existing methods of raising public revenues is that for the most part they are arbitrary, requiring special exceptions and contrivances to reach particular individuals or kinds of property that seem not to contribute their proper share of the public revenues, and produce an endless amount of friction, efforts to evade, and high cost of collection. Of this character are taxes on incomes, personal property, legacies, etc. They are highly inquisitorial, are constantly evaded, and, to be collected at all, require offensive prying into the personal affairs of individual citizens.

54. Direct and Indirect Taxation. There are two distinct methods of collecting public revenues; one is by direct taxation, the other by indirect. Direct taxes are levied (or intended to be) so that the tax must be paid directly, entirely and finally by the specific person or item of property upon which it is placed. Indirect taxes are so levied that a part at least of the tax may be shifted from one to another and thus be distributed throughout the community. It is frequently urged that direct taxation is the superior method, but experience does not support this view. In reality, taxes ought to be so levied as to come, finally, out of the surplus earnings or profits of industry, but, if levied *directly* upon profits to accomplish this end, the result would be failure and involve all the forms of evasion and opposition that accompany income and personal property taxes. To levy taxes directly upon rent or profits or interest invites the very maximum of evasion and deceit on the part of taxpayers and offensive prying on the part of the collector, arousing the keenest antagonism to taxation in general and hence,

of course, to the public expenditures for which taxes are raised. This effect would be calamitous in every sense, because public opinion ought to be constantly favorable to wholesome public expenditures, and the method of collecting taxes to pay for these improvements ought to be such as to create the least possible amount of opposition and evasion.

Moreover, to levy taxes directly upon profits would be a constant discouragement to industrial progress. If, for instance, profits were taxed directly in proportion to their amount, the effect would obviously be to diminish the incentive to make profits, since the greater the profits the more would have to be handed over to the taxgatherer. Direct taxation, in brief, is the poorest of all methods of collecting public revenues, because it creates the maximum amount of antagonism, resistance and evasion.

Indirect taxation, wisely applied, is much better. In fact, almost everything in human affairs is done better and cheaper by indirection. Productive force is much more effective when applied indirectly through the medium of complex machinery than when applied directly by hand labor.

Wise decision on great problems of state can usually be reached best by indirect methods,—first the popular discussion and election of representatives, then the discussion in the legislatures, then the voting on specific questions by the representatives, and, finally, the approval or veto of the executive officer. Public opinion is developed, sifted and matured by a process of indirection, through the press, platform, and selected representatives, legislative and executive. This is true of nearly all economic, political and social forces. The very indirection of the process tends to work out the crudities, expose the obvious defects, afford the greatest opportunity for test-

ing and criticism, and so finally secure, if not the best, at least a superior result to any that could have been obtained by direct, hand-to-hand methods. The collection of public revenues is no exception to this rule. Our systems of taxation should be so arranged as to draw the revenues finally from the surplus earnings or profits of the community, but in such a way as not to hamper and discourage industrial enterprise or stir up needless antagonism to the wholesome public expenditures for which taxes are imposed. How to do this is no easy problem, but a general line of policy leading to this end is suggested in the next chapter.

SUGGESTED READING.

In "Principles of Social Economics," the following portions of Chapter IV., Part IV., on "The Principles of Economic Taxation": Section I., on "The Economic Basis of Equitable Taxation;" Section IV., on "The Legitimate Sphere of Public Expenditures," and in Section V., the first part, under Number 1, discussing direct and indirect taxation.

In Hadley's "Economics," Chapter XIV., on "Government Revenue."

In Seligman's "Essays in Taxation," Chapters I. and II., on "The Development of Taxation" and "The General Property Tax."

In Wells' "Theory and Practice of Taxation," Chapter II., on "The Place of Taxation in Literature and History;" Chapters II. to VIII., inclusive, on the history and present systems of taxation in various countries, and Chapter IX., on "The Definition, Object and Sphere of Taxation."

EXTRACTS FROM READINGS.

Failure of Personal Property Taxation. "To avoid the first evil, taxes should be levied, as far as possible, upon visible and tangible objects. In general, things should be assessed, rather than persons. The attempt to rely on personal disclosure as a means of discovering taxable property results in discrimination of the worst character. The property or income of widows and orphans, which is in the hands of trustees, whose reports are matters of public knowledge, is taxed at its full value; so is that of a few exceptionally conscientious men. The majority of men make some return of taxable property sufficient to satisfy their consciences; but they interpret all doubtful points in their own favor, so as to make as few returns as possible. They take the law into their own hands; and, as an English essayist has said, the law is such a fragile thing that when men take it into their own hands it is sure to get broken. Finally, there is a considerable class of men who have no conscience at all in the matter, and who, in safe reliance on the certainty that their property will remain undiscovered, escape taxation on everything which the law hopes to discover by their declarations."—From Hadley's "Economics," Chapter XIV.

Evils of the General Property Tax. "If we sum up all these inherent defects, it will be no exaggeration to say that the general property tax in the United States is a dismal failure. No language can be stronger than that found in the reports of the officials charged with the duty of assessing and collecting the tax. Whole pages might be filled with such testimony from the various states. Only the following extracts from the New York reports are given as sample :

"A more unequal, unjust and partial system for taxation could not well be devised.

"The defects of our system are too glaring and operate too oppressively to be longer tolerated.

"The burdens are so heavy and the inequalities so gross, as almost to paralyze and dishearten the people.

"The absolute inefficiency of the old and rickety statutes passed in a bygone generation [is patent to all].

"The hope of obtaining satisfactory results from the present broken, shattered, leaky laws is vain.

"The system is a farce, sham, humbug.

"The present result is a travesty upon our taxing system, which aims to be equal and just.

"[The general property tax is] a reproach to the state, an outrage upon the people, a disgrace to the civilization of the nineteenth century, and worthy only of an age of mental and moral darkness and degradation, when the 'only equal rights were those of the equal robber.'"—From Seligman's "Essays in Taxation," Chapter II.

QUESTIONS FOR REVIEW OR DEBATE.

1. What is taxation?
2. Mention some of the expenditures for which taxes are raised.
3. For what two different kinds of objects may taxes be levied?
4. Mention some instances in which very effective protective taxes are practically useless as revenue taxes. Explain.
5. What rule should govern in the levying of these two kinds of taxes?
6. Mention some of the principal objections to our existing methods of taxation.
7. What are the two distinct methods of collecting taxes? Explain each.
8. Why are taxes on incomes, personal property, etc., chiefly objectionable?
9. How do such taxes affect industrial enterprise and public improvements?
10. What are some of the advantages of indirect taxation?
11. How is the wisdom of this method supported by experience in other departments of life?

CHAPTER XIII.

TAXATION—*Continued.*

55. From What Source Should Taxes Be Drawn?

Before taking up the question of how taxes may be made sufficiently indirect to avoid the evils of evasion and opposition, it is necessary to point out the sources of wealth from which public revenues may be drawn with least hardship to the community. Then the problem will be to find a way of levying taxes so that they will reach these sources of wealth with the least inconvenience and annoyance.

Clearly, the source from which revenues may be drawn most equitably and economically cannot be wages and salaries. These incomes are the necessary means of sustaining the standard of living of the masses of the people, and to impair that would be to impair the social usefulness and individual quality of the citizen. Nor can this source be the capital employed in industry, because to impair that would be to lessen industrial enterprise, reduce employment and seriously injure the prosperity of the whole community.

The only source from which revenues may be drawn without impairing either the usefulness and quality of the citizen or the productive enterprise of the community is the surplus earnings of industry, including rents, interest and profits. This is the margin of wealth which is being created from day to day, over and above all the expenses of production, wages, salaries, raw material,

etc. It is large or small, according to the state of industrial progress of the community. It is the source of income which, as it accumulates, furnishes most of the new capital for new investment, and it can be so used without impairing the personal incomes upon which the standard of living depends. It is, for the same reason, the best source from which to draw the public revenues.

56. How to Levy the Taxes. But how can taxes be levied so as to reach these surplus earnings most certainly, with least annoyance, and least opportunity for evasion? We shall find, upon investigation, that in order to accomplish this object the taxes should be levied, not directly upon profits, but indirectly, at the sources of production, in such a way that they will be shifted along, all through the productive process, from the seller of the original raw material to the consumer of the finished product, in higher prices, and thence on to the consumer's employer, in higher wages. Taxes will be shifted so long as they can be added to or included in the price of something the person taxed has to sell, whether commodities or services.

In order, therefore, to make the burden of taxation as imperceptible as possible, and evasion impossible, it is necessary to levy them at the point farthest from where they are finally paid, so that they will pass through the community as an inseparable and indistinguishable part of the prices of commodities and labor, and in this form, rather than in the form of direct taxes on profits, they will ultimately reach this surplus or profits in every department of productive industry.

To levy taxes at the sources of production means to levy them only on real property,—land, buildings, factories, railroads, franchises and the like. Besides being the easiest to assess and collect (since real property can-

not be hidden or carried away), these taxes permit of the maximum amount of shifting and wide distribution throughout the community.

57. Shifting of Taxes and Their Final Payment.

A tax placed on agricultural land would be added to the price of the crop, because it is a part of the cost of producing the crop, just as much as that which is paid for seed and the labor of planting, cultivating and harvesting. The portion of such a tax which was included in the price of grain, for example, would be transferred in that way to the miller, and the miller would shift it to the jobber, who would pass it on to the grocer, and the grocer would add it to the price charged the consumer.

Where will it stop? The shifting will continue until a point is reached where, by reason of economic laws, the tax cannot any longer be added to the price of anything that is sold. It is commonly assumed that for this reason the consumer cannot transfer the tax, but must pay it. If the consumer is a person who lives on profits, he cannot transfer it, because he has nothing to sell. But if the consumers are wage or salary receivers, they can transfer it, because they have something to sell—their services, and the tax is to them a part of the cost of living and hence of the cost of rendering their services. The price of flour or clothing, or of whatever enters into the cost of living, is a part of the cost of labor and must be covered in the laborers' wages. If prices of necessities rise, for any length of time, wages will rise. This is the testimony of experience everywhere. It is due to the simple fact that the standard of living is the real force by which stipulated incomes, as salaries and wages, are finally determined.

Therefore, a tax that is levied at the source of production, and has traveled through the community by the

process of shifting, is paid by the consumer whenever the consumer lives on profits, because he has no means of shifting it; but, so far as the consumers are wage and salary receivers, they have the same means of transferring it to the employers that the farmer has of shifting it to the miller, and the miller to the jobber, and the jobber to the grocer, and the grocer to the consumer. When it has reached the employer, in the form of higher wages, the struggle for its final resting-place begins.

It may be asked, will not the employer re-transfer it to the price of his products, just as the farmer did in the first instance, and all intermediaries. No. The conditions are now altogether different. When the price of sugar is increased by a duty of a cent a pound it is increased universally, all over the country at once. It is taken for granted, as a matter of course, by all who buy and sell and use sugar, that the tax must be added to the price, and sugar will rise. But in the case of the laborer transferring the added cost of his living to the employer in higher wages it does not come in any such universal or uniform manner. It comes very gradually and only here and there at a time. Taxes are different in different parts of the country; some taxes are shifted more rapidly than others, and they reach different groups of laborers at different times and in different degrees. The laborer tries to transfer the tax to the employer by demanding higher wages, but he does so only after considerable inconvenience and hard pressure to maintain his standard of living. If this pressure came among the laborers all at once and to the same extent, the employers might uniformly resist it or uniformly try to re-transfer it to the price of the product; but, since it comes piecemeal, it reaches individual employers or concerns separately, first one, then another, then another, and so on. The laborers

may fail in several struggles to secure the rise, but ultimately, if the pressure on their standard of living continues, their repeated efforts make it more expensive for the employers to resist than to concede the advance.

This demand by the laborers for more wages probably would not come as the result of the pressure of taxes alone, because the effect would ordinarily be too small to cause serious inconvenience; but in a progressive community there is a multitude of forces constantly at work tending to expand the standard of living and create demands for wage increases, and any pressure of increased cost of living under such circumstances is felt much more keenly than the actual amount of the increase alone would normally create. Therefore, so slight a pressure as that from taxes serves to intensify and stimulate the general demand for more wages, hastening the final granting of an increase which will more than cover whatever added expense of living has come from the tax.

When this increase in wages is first granted it comes directly out of the employer's profits. If he attempts to transfer the rise of wages (which includes the tax) to the price of his goods, he meets at once the competition of others who have not yet had to pay the higher wages. If it is a concern that is making large profits, it can afford the rise in wages without attempting to put up the price of the product; but if it is making no profit, or only a very slight profit, it will have its margin wiped out entirely. The contest for survival begins, and those who were at the no-profit point must reorganize their business on a more economic basis, call in science and invention and adopt better methods to create new margins of profit, or else withdraw from the field. It is by the repetition of this process that prices of manufactured products have not only been prevented from rising but

have been so greatly reduced during the last half century.

Thus it is that indirect taxes are the most equitable, most uniformly distributed throughout the community, least offensive in collection, and are ultimately paid out of the profits of the community, until the profit-receivers reimburse themselves by the use of more scientific methods of production and better organization.

When so distributed and paid, nobody is really poorer for the tax, but the community is better off to the extent of the services and improvements for which the taxes have been expended. Needless to say, this desirable result does not come under our existing systems of taxation. To secure it there must be uniformity of methods, based everywhere on the principle of levying taxes at the sources of production. Then the system must be maintained regularly and without sudden and arbitrary changes. Irregular taxes frequently come out of the consumer in the end, because they do not remain in force long enough to exert their full effect on the standard of living and cause successful demands for higher wages.

58. Taxation of Franchises. The growth of large corporations has given rise to a new problem in taxation. It has become a practical question how to make property owned by corporations contribute its proper share to the public revenues. The property of a corporation, being owned by an indefinite number of people, often residing at distant points and sometimes in foreign countries, any effort to tax the individual owners of the stock leads to endless complications, and all the evasion connected with other forms of personal taxation. So far as the owners reside outside the state where the property is situated, they cannot be directly reached at all. If the taxes were levied only on the visible property of the corporation, on the other hand, it would in a very large number of in-

stances pay only a small portion of its due share of the public burden. Taxes should be levied only on real property, but there are invisible elements in a corporation's property which are real no less than the visible. It frequently happens that a very large part of the profit-earning capacity of a corporation is due to some franchise or privilege granted by the public. This is especially true of steam and street railroads, city gas companies, and all corporations which make use of public property in carrying on their business.

Corporations should pay taxes on their franchises to the extent that the franchises are real profit-earning assets. How to distinguish between the value of the visible property and the value of the franchise is the problem.

There seems to be but one effective way of accomplishing this, and that is to ascertain, first, the total value of the corporation's property and business, as indicated by the market value of its stock, plus the value of the bonds it may have issued and upon which it is paying interest. These two items together will represent what the whole concern is worth and would sell for, as a profit-making business enterprise. The market value of the stock is always determined by what the company earns over and above what it pays in interest on its bonds. If the earnings are large, the value of the stock will be high; but if it can only pay interest on its bonds, the stock, if worth anything at all, will have only a speculative value due to anticipated profits in the future.

Having thus ascertained the total value of the concern, deduct the value of its tangible physical property, and the balance may be regarded as the value of the franchise. Of course, this may often include an extra value given to the business by expert management, but the public is entitled to have its franchises estimated on

the basis of what they will earn under good management. Because some men cannot use it with profit is no sign that the franchise is not a valuable one.

This method has the advantage of simplicity. It collects the tax from the corporation instead of pursuing the individual owners of the stock. Unless the tax is shifted, the stockholders will really pay it in the form of a reduction in their dividends, and if it is shifted they will pay a portion of it, together with a portion of all the other taxes in the community, in the higher prices of what they consume. This is because, as before pointed out, people whose income is profits (or dividends) have no way of shifting a tax.

If this method were adopted, no tax should be placed on the stock of corporations as such, because they would already have been taxed on the full value of their business, including both tangible property and the franchises, if any; and to tax the stock in addition would be double taxation. Under the proposed system the property would be taxed at its full value, once for all, at the point where it is actually situated, and evasion would be impossible; whereas, under the present system of taxing both real and personal property, a very large amount of personal property escapes taxation altogether, while whatever personal property does not escape is really taxed twice—once in the concern itself, as real property, and once in the stock or bonds or mortgages representing it, as personal property.

SUGGESTED READING.

In "Principles of Social Economics," the following portions of Chapter IV., Part IV., on "The Principles of Economic Taxation": Section II., on "The Mobility of Taxes and Their Relation to Wages;" Section III., on

"The Ultimate Effect of Taxation upon Profits and the General Wealth of the Community;" and in Section V., the second part, beginning on page 377, discussing the question of the kinds of property upon which taxes should be levied.

In Ricardo's "Principles of Political Economy and Taxation," Chapters VIII. to XVII., inclusive, treating of taxes and the effect of taxes upon various sources of income, prices of products, wages of labor, etc.

In Seligman's "Essays in Taxation," Chapter IV., on "Double Taxation."

In Wells' "Theory and Practice of Taxation," Chapter XX., on "Double Taxation," and Chapter XXV., on "What Should Be Taxed and How It Should Be Taxed."

Reference is also made to a lecture on "Taxation of Franchises," by George Gunton, series of 1898-'99.

EXTRACT FROM READINGS.

Double Taxation. "If a resident of Massachusetts owns a cow which is bodily in another state, that cow is properly taxed in the state where the animal is; but Massachusetts, in virtue of the residence of the owner within her territory, imposes upon him a second tax for the same cow. Again, owners of shares in corporations chartered and located in Massachusetts are taxed through the corporation, and their shares are free from any further taxation. But if the same persons are shareholders in corporations created and established by other states, and the real and personal property of which are fully taxed where situated, they are subject to a second tax in Massachusetts on the assumed local value of the interest of their citizens in such extra-territorial corporations.

Under this system, moreover, the same property may be, and too often actually is, subjected to not merely double but triple taxation, which sometimes practically amounts to confiscation. Thus personal property belonging to a citizen of Massachusetts, but located in Chicago, would be properly taxable there, because within the territory and under the protection of the taxing power. It would, however, be taxable to the owner in Massachusetts because of his personal residence in that state; and the owner would also be liable to taxation in Massachusetts by reason of his income from the same property."—From Wells' "Theory and Practice of Taxation," Chapter XX.

QUESTIONS FOR REVIEW OR DEBATE.

1. Mention some of the sources from which taxes cannot be drawn without hardship to the individual and injury to the community. Explain.
2. From what sources ought taxes ultimately to be drawn? Why does this not involve hardship as in the other cases?
3. On what kinds of property should taxes be levied in order to reach the surplus earnings of the community most certainly and with least annoyance?
4. Mention some of the kinds of real property as distinguished from personal property.
5. Explain the process by which taxes are shifted throughout the community. Illustrate.
6. At what point only is it impossible to shift a tax any further? Why is this?
7. What classes of consumers are unable to shift a tax, but must pay it themselves?
8. What other and much larger class of consumers are able to shift taxes that reach them in the shape of higher prices of commodities? In what way can they shift such taxes?
9. When the tax has been shifted from the wage-earning consumers to their employers in the form of higher wages, why cannot the employers again transfer it in higher prices for their products?

10. Would the demands for higher wages ordinarily come solely as a result of the tax alone? If not, what combination of circumstances helps transfer the tax to the employer through increased wages?
11. If the employer cannot add this increased expense to the price of his goods, from what does he at first pay it? How must he reimburse himself, if at all, for this added expense?
12. What is the net result to the individual taxpayers and to the welfare of the community of taxes which are distributed and paid in this way?
13. In what respects does our present system of taxation fail to secure these objects?
14. What intangible but valuable portion of corporations' assets has hitherto largely escaped taxation? Explain just what this item of value is.
15. In what way may the total value of a corporation's property and business be estimated?
16. Having learned this total value, how may the value of its franchises, if any, be ascertained? How should its taxes then be assessed?
17. Mention some of the advantages of this method of taxing corporation assets.
18. If this method were adopted, ought any tax to be placed on corporation stock, as such? Explain your answer, and state the practical effects of our present system in this respect.

CHAPTER XIV.

MONEY.

59. What Money Is.* To most people the idea of money includes nothing more than the coins or paper certificates which perform the functions of money. In practical experience, for convenience and exactness, the word is indeed limited to this meaning, but, theoretically, anything which serves as an instrument of exchange—that is, which is accepted temporarily by one party to an exchange instead of the commodities he wishes ultimately to obtain for what he has given—is money. He accepts the money, not for its own sake, but because it becomes to him the basis and proof of his claim to a certain amount of other wealth standing to his credit in the community. He has already given to the community, through the individual with whom he dealt, this same amount of wealth or service in some form; the money he accepted in return now constitutes his claim on the community for an equal amount of wealth or service in some other form. In other words, money *per se* is simply a circulating evidence of credit. Whether the money must itself consist of wealth to the full amount of the things for which it is exchanged, or may consist simply of paper or other tokens representing wealth, depends upon the extent to which the people have confidence or

* See "Outlines of Social Economics," Sections 33 and 34, Chapter VII.

lack confidence that wealth to the same amount can always be obtained for the money when desired.

60. The Materials of Money. This confidence is great or small, according to the general integrity and good faith, or otherwise, prevailing throughout the business community, and the ability and disposition, or otherwise, of the government which issues the money to see that it contains the full amount of wealth it claims to represent, or, if it is paper or token money, to see that actual wealth money is promptly furnished in exchange for it whenever desired. Whether the bulk of the money in use, therefore, is made of actual wealth like gold and silver, or merely of a representative material like paper, depends largely on the state of civilization of the community.

All sorts of material have been used as money, but in civilized countries to-day gold, silver and paper are chiefly employed, the paper being merely credit certificates representing gold or silver. Gold has come into use as the chief standard money metal because of its superior durability, beauty, convenience due to the high value which makes small quantities available for large transactions, and its substantial uniformity of value through long periods of time. This stability prevents the annoyance and loss of sudden changes in the standard by which values are measured. A few centuries ago practically all the money in use consisted of actual wealth—coins of various substances—and this was because people would not accept as money anything which did not literally contain wealth equal to what they gave in exchange for it, so that, if the coins were converted into bullion, they would be worth just as much as the grain or meat or cloth or tools for which they had been accepted.

In modern times, however, public confidence and integrity have so increased that paper money has come into very general use, not supplanting metallic money but in addition to and representing it. Paper money is not actual wealth or property money. It does not contain wealth to the amount named on its face, but simply represents it. The property is not in it but behind it. It circulates, instead of property, as an instrument of credit. It passes from hand to hand solely on the confidence the people have that wealth to the amount represented can actually be obtained for it upon demand. In order that they may have this confidence, it is necessary to provide for testing the paper money occasionally, sometimes quite frequently, by calling upon whatever authority or institution issues this money to redeem it in actual wealth. Potatoes, shoes, clothing or furniture will not be accepted as redemption for the same reasons that these commodities could not be used as instruments of ordinary exchange. They are too bulky, perishable, expensive to handle and highly variable in value. The wealth that paper money represents must itself be capable of doing the work of money; the redemption must be in some metallic money, coin of gold or silver, or whatever metal is used for the standard money of the community in which the paper money is circulating.

"Legal-tender" paper money is money issued by a government, usually in times of war or great emergency, bearing upon it the government's mandate that it must be accepted when offered in payment of debts. The government may or may not redeem this legal-tender paper money in standard coin, according to the state of its finances. Therefore, the paper must be accepted solely on faith in the government's soundness, honor, and ability to redeem it ultimately in standard metallic money.

This means that whenever the credit of the government is disturbed there is danger of the legal-tender paper money depreciating in value, causing loss to all who hold any, and general disaster to business. In the case of the continental legal-tender money in this country during the revolutionary war, the government's power to redeem was so doubtful that the paper money became practically worthless and was finally redeemed at one cent on the dollar. Confederate money during the civil war is another illustration of this. It was made legal tender by law, and after Lee's surrender it became absolutely worthless, because it could not be redeemed in property money, but rested solely on the credit of the defunct confederate government. The greenbacks issued by the United States during the same civil war were of like character. Their value rested wholly on confidence in the government, and, consequently, rose and fell with the fortunes of the union army. When the North finally succeeded, confidence in the government increased, but the treasury was not able to redeem greenbacks in full-value property money, and therefore they remained at a discount until 1879. In that year the government began to redeem them in gold, and at once the confidence of the community returned. The value of the greenbacks became the same as that of gold.

61. The Value of Money. The metal of which the standard money of a country is composed is simply a commodity, and its value is determined like the value of all other commodities, by the cost of producing the dearest portion for which there is a continuous demand. When this metal is made into coins for use as standard money no change in its value takes place. The value of the coin depends upon the economic value of the metal it contains, and the coin will exchange only for wealth of

equal economic value, determined in the same way. The government stamp of "dollar" or "eagle" simply means that a certain amount of silver or gold, when coined, shall be known by a certain name. How much people will give in exchange for this coin bearing this name depends entirely on the amount of actual wealth it contains. The government can mint it, stamp it and name it, but the value at which it will be accepted throughout the community is something over which the government has no control. The coin will not buy more or less of a commodity because it has the government stamp, except to the extent that the stamp gives confidence that the coin is not a fraud, and may to that extent remove a hesitancy to accept it. The government stamp merely guarantees that the coin consists of metal of a certain kind, weight and degree of purity; just as the marks and numbers on weights, measures and yardsticks testify that these articles are of a certain weight, size and length, respectively.

There is a great deal of metallic money, however, which does not contain the full amount of actual wealth it represents. This is true of all English silver and copper coins, and of American silver dollars, half-dollars and small coins. Why the silver dollar, containing less than fifty gold cents' worth of metal, twenty nickels containing only about ten cents' worth of metal, and one hundred copper pennies containing only about eight cents' worth of metal, all circulate as the equivalent of a gold dollar containing one hundred cents' worth of metal, is a question over which much confusion exists. The fact that these cheaper silver, nickel and copper coins circulate at par with gold seems to support the idea that the government stamp gives the value to money. In reality, it does nothing of the kind. The uniformity of value between these different coins is the result of economic, not

political, law. It is simply a part of the universal law of value, by which the price of competing portions of the same kind of commodity tends to be uniform in the same market.* For illustration, the cotton cloth that comes to the wholesale warehouses of New York city from hundreds of different factories all over the country will sell at the same price per yard, for similar grades, regardless of the different conditions under which the output of the different mills is produced. The price does not vary according to the different costs of production in the different mills, but it tends to uniformity on the basis of the cost of the output of those mills whose expense is greatest, so long as their portion of the supply is required by the market. This is for the obvious reason that these mills could not continue to furnish cloth unless the price they received for it at least covered the cost of production. What their cloth must sell for the similar cloth of other mills will sell for, because the cloth is all alike and will render the same service.

The value of different coins is governed by the same law. The hundred pennies and ten dimes and four quarters and two half-dollars are not intrinsically worth as much as a gold dollar, but so long as, for convenience and by the force of custom, they perform the same monetary service as a gold dollar, and with greater adaptability for small transactions, and are all required and necessary to carry on the business of the community, they will circulate together at uniform value as money. This uniform value will not be on the basis of the value of the copper pennies, nor of the nickels, nor of the fractional silver, nor of the silver dollar, but on the basis of the value of the dearest coin that is circulating with the others and performing the same service—that is, the gold coin ;

* See "Outlines of Social Economics," Chapter X.

just as the price of cotton cloth is uniform on the basis of the dearest portion of the supply the market requires. If this dearest portion of cloth should become unnecessary, the price would fall to the level of the next dearest portion still required; and, in the same way, if the gold coin should be removed from circulation or become unnecessary, the value of all the other coins would fall to the level of the next dearest one remaining in use, which, in our case, would be the silver dollar.

It is for this reason that in Mexico, for example, where the dearest standard metal in use is silver, the dollar is worth only about half as much as a United States dollar. Our silver dollar circulates on the basis of the value of a gold dollar, since both perform the same service and are required for that service in the same community; but the Mexican silver dollar, being the dearest standard coin, circulates only on the basis of its bullion value, there being no dearer coin to establish a higher level of value for it. Therefore, the Mexican dollar, although it contains a few more grains of silver than the United States silver dollar, is worth as money only about half as much.

Why does gold stay in circulation in the United States and European countries, while in Mexico and a number of other countries it will not circulate and silver is the dearest coin? Simply because, in the United States and Europe, law has limited the coinage of silver so that it cannot do the entire work required of standard metallic money in the community, while in these other countries there is no limit on the coinage of silver and enough is furnished to supply the entire need of standard money. Where silver coinage is restricted, gold is still needed, and, so long as gold is needed to make up any portion of the general metallic money, the value of all will be equal to that of gold, the dearest coin. If silver were

admitted to unlimited coinage, there would very soon be enough silver to do the whole work of standard metallic money. Gold would not be needed and would soon disappear. This fact, that free coinage of a cheaper metal will drive out the dearer is confirmed by universal experience. It is even known as the "Gresham law," from having been announced by Sir Thomas Gresham so long ago as the sixteenth century. In order to prevent this driving out of the dearer metal, it is necessary that the cheaper be so limited in coinage that the dearer will still remain necessary, or else, if the cheaper metal is admitted to free coinage, the coins must contain enough metal to constitute the same bullion value as that of the dearer coin of the same denomination. If the bullion value of the two is the same, neither will drive the other out; but if either coin contains less metal value it will drive the other out if admitted to free competition with it. This is why, if it is desirable to maintain the gold standard of money, free coinage of silver or any metal cheaper than gold, except at equal bullion value, coin for coin, cannot be permitted.

SUGGESTED READING.

In "Principles of Social Economics," Sections I., II. and III. of Chapter VI., Part II. This chapter is on "Money and Its Economic Function," and the three sections suggested discuss the questions of what money is, its economic functions and its value.

In Jevons' "Money and the Mechanism of Exchange," Chapters III. to VII., inclusive, treating of the functions of money, its early history, the materials of which it is made, important qualities in the material of money, coins and forms of coins; also, Chapter XIII., on "Technical Matters Relating to Coinage," such as alloy, etc.

In White's "Money and Banking," Book I., Part I., on "The Evolution of Money," and Chapters I. to VII., inclusive, in Book I., Part II., on "Fiat Money."

In Del Mar's "History of Monetary Systems," Chapters I. to V., inclusive, giving the history of money in India, Persia, Palestine, Greece and Rome; and Chapter VI., on "The Sacred Character of Gold."

For general description of the systems of money in use throughout the world reference is made to Muhleman's "Monetary Systems of the World;" also to the sections on "The World's Currencies" and "The People's Money," in "Sound Currency" (Reform Club Compendium).

EXTRACT FROM READINGS.

Essential Qualities of Metallic Money. "All writers are agreed that the six requisites mentioned above are essential to a good kind of money; viz., portability, homogeneity, durability, divisibility, cognizability, and stability of value.

"Long experience has taught mankind that these qualities are best embodied in two metals—gold and silver. Experience has likewise shown that it is impracticable to have both of those metals as a standard of value at the same time. Gold was retained rather than silver because it contains much value in little weight, and hence is better suited to the needs of modern commerce. Silver remained in use afterwards as small change because people were habituated to it. Every piece of our gold money passes for the value of the metal contained in it. This is true of the gold money of all nations.

"It must not be assumed that gold is absolutely stable in value. When we speak of the value of one thing which measures all values we mean its purchasing power in

terms of those commodities whose supply is unlimited, or not controlled by monopoly. The value of gold thus measured is subject to variations, but it is impossible to measure them with accuracy even when we compare prices during long intervals of time. We are concerned at present only with the comparative steadiness of value of different things, as, for example, gold and tobacco. If gold is subject to fewer changes of purchasing power than tobacco, it is better fitted to serve the purposes of money and will sooner or later supplant it in that function. If it is subject to fewer changes than any other known substance, it will supersede all others. The fact that it is not wholly free from variation itself will not prevent it from becoming the sole and universal money of civilized mankind."—From White's "Money and Banking," Chapter II., Book I.

QUESTIONS FOR REVIEW OR DEBATE.

1. What is money? Is it necessarily the same thing as metal coins or paper currency?
2. In what way may money be regarded simply as an evidence or certificate of credit?
3. Why has gold gradually come to be the chief standard money metal in modern civilized countries?
4. Under what conditions will paper or representative money circulate in the community?
5. What are the essential characteristics of paper money? What system is necessary to keep it always at equal value with the metallic money it represents?
6. What is legal-tender paper money? Under what conditions, usually, is it issued?
7. On what does the value of legal-tender money depend? Mention instances in which such money has become practically worthless, and explain why.
8. How is the value of the standard money coin of a country determined?

9. Does the government stamp on a standard money coin affect its value? What is the real usefulness of the government stamp on the coin?
10. Explain how it is that silver, copper and nickel coins, having the same face value as gold coins, but containing much less real bullion value, will circulate at the value of the gold coins.
11. Explain how this is similar to the way in which economic laws establish uniform prices for the same commodities in the same market.
12. Under what conditions only and how long will these cheaper coins circulate at the value of the dearer coin?
13. Explain why the silver dollar in Mexico is worth only about one-half the United States silver dollar, although containing a little more silver bullion.
14. Why does gold remain in circulation in the United States and European countries, while silver is standard money coin in Mexico and other so-called "silver" countries?
15. What would be the effect of admitting silver to free coinage in the United States and European countries?

CHAPTER XV.

MONEY—*Continued.*

62. Theory of Bimetallism. Bimetallism is the coinage and use of two different metals as standard money. If one of the metals is more valuable than the other, as gold is more valuable than silver, a proportionately larger quantity of the cheaper metal than of the dearer must be put into coins of the same denomination in order that such coins, of whichever metal they are made, may have the same value. The proportion between the respective quantities of metal in the two coins is known as the coinage ratio of the two metals. In the case of gold and silver, the advocates of free-silver coinage advance the theory that the relative value of these two metals is determined by the relative quantity of each that is regularly produced in the world. They then endeavor to show that the amount of silver regularly produced averages about sixteen times the amount of gold, and that, therefore, the coinage ratio should be sixteen parts of silver to one part of gold; that is, a silver coin should contain sixteen times as much metal as a gold coin of the same denomination.

This theory also maintains that, if the two metals are so coined and put in circulation with each other, the competition between them will automatically keep the bullion value of the two metals at the same ratio as the coinage value, so that neither coin will drive the other out of circulation by reason of the metal it contains be-

coming permanently cheaper than the other. The way this is supposed to work is as follows: If one metal tends to become cheaper than its coinage value, so that the metal in the coin costs less than the face value of that coin, there will be at once a great demand for this cheaper metal. People will seek to buy it in order to get it coined and make a profit by reason of the difference between its coinage value and the cheaper bullion value. This great demand for the cheaper metal will promptly cause its value to rise again to the former point, so that excessive coinage will cease and the two coins will remain in circulation as before. If, on the other hand, one metal should tend to increase in bullion value above its coinage value, none would be offered for coinage, and the coins in use would be melted down and sold as bullion, being more valuable in that form than in coins. Thus the demand for the appreciating metal, for coinage purposes, would cease and the supply of bullion increase by the melting down of coins, and this would cause its value to fall to the former point, restoring the normal ratio between the two metals.

We shall find upon examination that this theory is erroneous in both of the main propositions upon which it rests, *i. e.*, that the value of the money metals is determined by the relative quantity of each produced, and that the two metals, when freely coined and put into circulation with each other, will, by an automatic process, remain at the coinage ratio of value and neither drive the other out.

63. Value Not Determined by Quantity Produced.

The theory that the value of silver and gold is determined by the relative quantity of each produced is not sustained by experience. For example (to use the universally accepted tables of Dr. Adolph Soetbeer),

from 1801 to 1810 the quantity of silver produced was 50.3 times as much as the quantity of gold, but gold was only 15.6 times more valuable per ounce than silver, instead of being 50.3 times more valuable, as this theory would require. From 1851 to 1860 the production of gold was so great that only about 4.4 times more silver than gold was produced in the world, but the ratio of value was 15.40 of silver to 1 of gold. From 1861 to 1870 the ratio of production was about 6.5 of silver to 1 of gold, while the ratio of value was 15.56 to 1. So that, the ratio of value was substantially the same when the production of silver was only 4.4 times as much as that of gold as when it was 50.3 times as much, clearly showing that the relative value of the two metals is not governed by the relative quantity produced.

In reality, the value of gold and silver, whether in coin or bullion, is determined by the same law that determines the value of everything else, namely, the cost of production of the dearest portion the market requires.* During the last thirty years the value of silver has fallen from \$1.32 to 64 cents an ounce, or more than 50 per cent. The causes for this are substantially the same that have caused the fall in the price of iron, steel, zinc, lead, copper, clothing, furniture and scores of other commodities, namely, the lessening of the cost of production. Silver production has been cheapened partly by the discovery of richer mines, partly by the use of superior machinery, partly by the invention of new methods of separating the ore and partly by the reduced cost of transportation. The reduction in price has come through the economies in a multitude of ways in the cost of obtaining the silver and putting it on the market.

64. Practical Experience with Bimetallism. The

* See "Outlines of Social Economics," Chapters IX. and X.

theory that under free coinage the bullion value of the two metals will remain at the established coinage ratio, each circulating freely with the other and neither driving the other out, is equally erroneous. It does not take into account the fact that a multitude of causes other than the opportunity of free coinage may and do affect the bullion value of the metals, causing one or the other to be almost continuously dearer or cheaper than its arbitrary coinage value, so that both coins are very rarely in actual circulation together. In order to understand this it will be well to trace, briefly, the history of metallic coinage.

It is not easy to determine when regular coinage first began, but many accounts seem to indicate that it was invented about the latter part of the tenth century, B. C. This, however, was coinage only of silver and the cheaper metals. The history of this subject is meager, but evidence is not wanting that both gold and silver were used as money before and during the time of Solon. According to some writers, the earliest ratio between gold and silver, in India, was 5 of silver to 1 of gold. In the sixth century, B. C., the ratio became $6\frac{1}{2}$ to 1. Of course, the ratios during these early periods were not strictly economic, but were maintained largely by religious authority. For a long time the right to coin gold is believed to have been reserved exclusively to the religious authorities, but the metal chiefly coined was silver. Under such conditions, where coinage was regarded as a matter of supernatural authority, the ratio between gold and silver was not an economic ratio but entirely arbitrary. The two metals would circulate at almost any ratio that might be decreed, because of the constraining power of superstition. As the arts of industry progressed and business became more distinctly separated from the church's au-

thority and passed over to the control of economic conditions, the ratio between gold and silver followed more and more closely the actual bullion value of the two metals.

From the time of Pepin (752) to the fall of Constantinople (1204), no Christian kings struck any gold coins, but from that time on both gold and silver were coined in the different countries with more or less continuity. So far as the facts can be ascertained, from the sixth to the fifteenth century the ratio ranged between 7 and 10 of silver to 1 of gold; during the fifteenth century it rose to 10.75 to 1, and from that time down we have Soetbeer's very accurate statistics of the value of the two metals. During all this time the price of silver as compared with gold has gradually declined, as follows:

Fifteenth century.....	\$1.92	per ounce; a ratio of 10.76 to 1
Sixteenth century.....	1.80	" " " " 11.48 "
Seventeenth century.....	1.40	" " " " 14.76 "
Eighteenth century.....	1.38	" " " " 14.97 "
In 1859	1.36	" " " " 15.19 "
In 1860	1.35	" " " " 15.31 "
In 1865	1.34	" " " " 15.42 "
In 1870	1.33	" " " " 15.54 "
In 1875	1.25	" " " " 16.54 "
In 1880	1.15	" " " " 17.97 "
In 1885	1.06	" " " " 19.50 "
In 1890	1.05	" " " " 19.68 "
In 189565	" " " " 31.80 "
In 190064	" " " " 32.29 "

These changes in the ratio have taken place notwithstanding the fact that until about a quarter of a century ago coinage of both metals in most countries was free.

Our own experience in this matter is very instructive. In 1792 the ratio was fixed at 15 to 1, on the recommendation of Jefferson and Hamilton, because their in-

vestigations of the subject showed that the market value of gold and silver was as 15 to 1; that is to say, fifteen ounces of silver would bring in the open market the same price as one ounce of gold. At least, that was the nearest they could get to it. The reason for fixing the ratio at 15 to 1 was to make the coinage ratio the same as the market bullion ratio. Experience proved, however, that this coinage ratio was not exactly like the market ratio. Fifteen ounces of silver were not worth quite as much in the open market as one ounce of gold. Therefore, no gold was taken to the mint, because it was worth more as bullion in the open market. In France the ratio had been fixed at 16 to 1, and this worked in the opposite way. No silver would go to the mint, because sixteen ounces of silver were worth more than one ounce of gold, and, therefore, would bring more in the market than at the mint. The value of the metals did not automatically adjust itself, according to the theory of bimetallism, and in 1803 France changed the ratio to $15\frac{1}{2}$ to 1.

As the legal ratio failed to keep the value of the two metals together, congress in 1834 changed the ratio from 15-to-1 to 16-to-1, or, to be exact, 16.002155 to 1. The market price of silver was then \$1.31 an ounce, which is at the ratio of 15.73 to 1. Therefore, the new coinage ratio undervalued silver to about the same extent that it was overvalued in 1792. That is to say, the silver dollar of $371\frac{1}{4}$ grains was worth about 3 per cent. more in the market as bullion than the gold dollar of 23.2 grains. Therefore, no silver would go to the mint. Even the fractional silver coins went out of circulation. Half-dollars and quarter-dollars were coined with the same proportionate amount of silver as the dollar; that is, a half-dollar contained just half as much and a quarter-dollar just one-quarter as much as a silver dollar. Like the

dollar, therefore, these coins were worth 3 per cent. more than their coinage equivalent in gold; therefore, they went out of circulation, because a profit of 3 per cent. could be made by melting them into bullion.

In 1837 another attempt was made to correct this by reducing the amount of alloy in a gold dollar, so that the pure gold in a dollar was increased to 23.22 grains. This did not quite counterbalance the difference, and in 1853 another act was passed, reducing by 7 per cent. the amount of silver in a dollar's worth of fractional coins—halves, quarters and dimes; also limiting their legal-tender power to \$5 and permitting coinage only at the discretion of the government. This made these small coins worth considerably more as coins than as bullion and it had the desired effect. Nobody would melt coins when he would lose by doing so, and the fractional currency remained in circulation.

Each of these efforts shows that the economic value of the metal in the coin governed the value of the coin, and that the value of the metal was not at any time determined by the legal coinage ratio. In other words, every change in the coinage ratio has been made to adjust it to the market ratio, because under no other conditions would the two metals circulate together. Free coinage of silver dollars was discontinued in 1873 simply because both metals could not be kept in circulation at the same time. Silver dollars would not circulate and practically none were in use; indeed, from the opening of the mint in 1793 down to 1873 only 8,031,238 silver dollars had been coined.

65. Practical Effect of Free Coinage. At the present (1900) price of bullion the silver in a silver dollar is worth only about $49\frac{1}{2}$ cents. Under free coinage, therefore, silver would be overvalued by more than 50 per

cent. If the overvaluation of silver by 2 or 3 per cent. in 1792 would keep gold out of circulation, the effect of an overvaluation of silver by 50 per cent. can readily be imagined. Of course, silver dollars would not continue to be worth the same as gold dollars, as they are at present by virtue of the limited coinage of silver, but neither would they fall immediately to their bullion value. The change would come rapidly, but while it was going on there would be an immense profit in buying up silver and getting it coined. Gold coin would be exported to buy silver, or else melted and sold as bullion, or else hoarded up because of the rapid increase in its value as compared with silver. It would entirely disappear from circulation, so that the practical effect of free coinage of silver would be, not to establish bimetallism, but to establish silver as the standard money metal.

After a short time the silver, being the standard coin, would have fallen to the value of the bullion it contains; just as the gold dollar, when serving as the standard coin, is worth only its economic bullion value. This means that the standard by which the value of all commodities and labor is measured would have been reduced about one-half. The process of change from the gold standard to this 50 per cent. cheaper silver standard would cause universal uncertainty, panic, and loss to all sellers of goods and to wage-earners, who would have to accept money that was constantly falling in value and would be worth less when they came to spend it than when they accepted it; as well as enormous loss to all owners of fixed investments, large or small, depositors in savings banks, creditors, and all who had legal claims to money which they had invested, loaned or deposited in gold or the equivalent of gold, and for which, under free coinage, they would be legally entitled to receive only silver. The

result would be unparalleled business disaster while the new standard was being established, and after it was established it would be found much less satisfactory than the old because of silver's greater variableness in value and the difficulties of trade with countries having the gold standard.

SUGGESTED READING.

In "Principles of Social Economics," Section IV., Chapter VI., Part II. This section discusses "The Depreciation of Money."

In Laughlin's "History of Bimetallism in the United States," Chapters II., VII., XIII. and XIV., on "The Silver Period, 1792-1834," "The Demonetization of Silver," "Silver Legislation in 1878" and "The Present Situation."

In Giffen's "Case Against Bimetallism," Chapters I., II., VI. and IX., discussing, respectively, "The General Case Against Bimetallism," "Some Bimetallic Fallacies," "The Alleged Bimetallism of France, 1803-'73" and "A Chapter on Standard Money."

In Jevons' "Money and the Mechanism of Exchange," Chapter XII., on "The Battle of the Standards," and Chapter XXVI., on "The Quantity of Money Needed by a Nation."

In White's "Money and Banking," Book II., Part I., on "The Gold Standard," and Chapters VIII., IX. and X., in Book I., Part II., discussing American experience with silver coinage.

In "Sound Currency" (Reform Club Compendium), the sections on "Bimetallism in History" and "Bimetallism in France."

For historical discussion of the monetary system of the United States, with special reference to monometal-

ism and bimetalism, reference is made to Watson's "History of American Coinage" and Noyes' "Thirty Years of American Finance." In the latter book the chapters from Number VI. to the end of the volume are, perhaps, the more important.

EXTRACT FROM READINGS.

Why Free Silver Coinage Was Suspended. "The reasons that the standard silver dollar was not retained in this act were the same which caused it to be omitted from the act of 1853. It had not been in use for many years because there had been no demand for it, and as the bullion in it was worth three or four per cent. more than the bullion in a gold dollar, it was sold for bullion or exported, and thus kept from circulation. For these reasons the coinage of this piece was discontinued by the new act.

"The act dropped the silver dollar and limited the coinage of silver, except for trade dollars, to the pleasure of the government, and made the gold dollar the unit of value. This had practically been the condition of the country for a long time. Neither public sentiment nor business had demanded the coinage of silver dollars, while the amount of subsidiary coinage had not been large for many years, and gold had by common consent been the standard in this country since the act of 1853, if not since the act of 1834. The act of 1873 merely crystallized into law a condition which had been as strong as law for more than a quarter of a century. It is hardly creditable to the American people or the American congress to say that an act which legalized permanent public sentiment was a crime against civilization and broke down one-half the metallic money of our country. If the argument is to proceed on the theory that one-half the metallic money

of the United States was destroyed by the act of 1873, I answer that it had been destroyed from the beginning of the government; or, more accurately speaking, one-half the metallic money of the country had never had any practical circulation in the United States, for under the act of 1792 one kind of metallic money disappeared from circulation, and under the subsequent acts the other kind disappeared. Such was our financial situation when congress passed this act."—From Watson's "History of American Coinage," Chapter VIII.

QUESTIONS FOR REVIEW OR DEBATE.

1. What is bimetallism?
2. What is meant by the coinage ratio between gold and silver?
3. What is the bimetalist theory of how the relative value of gold and silver is determined?
4. On what grounds do bimetalists urge that sixteen to one is the natural and proper coinage ratio between gold and silver?
5. Explain the bimetalist theory of how, under free coinage of both metals, the bullion value of each will remain the same as the coinage value, so that the coins will circulate together and neither drive the other out.
6. Mention some of the facts showing that the relative value of gold and silver is not determined by the relative quantity of each produced.
7. In what way is the value of gold and silver, whether in bullion or in coin, really determined?
8. What has caused the decline in the value of silver in the last thirty years?
9. What fact is overlooked in the bimetalist theory that under free coinage the bullion value of the two metals will be kept at the coinage value by the competition between the two coins?
10. When is regular coinage supposed to have begun? What are supposed to have been some of the earliest ratios?
11. Under what authority was early coinage carried on? Why was it possible under these conditions to maintain arbitrarily any desired ratio between gold and silver?

12. When this element of authority was removed, by what forces did the ratio come to be governed?
13. Between what points did the ratio between gold and silver range from the sixth to the fifteenth century?
14. Give the ratio at three or four dates since the fifteenth century, showing how the value of silver as compared with gold has steadily declined.
15. What was the first coinage ratio established by the United States government? Why was this ratio selected?
16. What effect did this ratio have upon gold coinage, and why?
17. How was it sought to remedy this in 1834, and what was the effect?
18. What change was made in regard to fractional silver coins, in 1853, and with what effect?
19. What has been the real reason for every change that has been made in the coinage ratio?
20. In what ways would free coinage of silver in this country drive gold out of circulation?
21. Would free coinage establish bimetalism or would it give a single silver standard?
22. After the change from the gold to the silver standard had been made, how would the value of the standard silver coin be determined?
23. What would be some of the effects on business conditions, investments, savings, etc., of this change to the silver standard?
24. After the silver standard was finally established, would it be superior or inferior to the previous gold standard, and in what ways?

CHAPTER XVI.

BANKING.

66. Banks and Their Uses. Banks are institutions for the deposit and safe-keeping of money, and (which is more important) the extension of credit to business people throughout the community, making large numbers of transactions possible without the actual use of cash. This great economy is the principal service rendered by banks.

Some capital is required to start a bank, just as it is to start any other business, to furnish the building and apparatus for conducting it and pay the first running expenses. By receiving the deposits of a large number of people, of whom only comparatively few draw out their money at any one time, a bank has a large amount of funds all the time on hand from which to accommodate the business community by temporary loans, mostly of short duration. For example, if a business man goes to a bank and offers real property of some acceptable kind as security and the bank loans him \$10,000, he does not draw out the \$10,000 then and there, but it is put to his credit on the books of the bank and he can give checks upon it in payment of his debts or in making purchases. At the same time that he is thus borrowing from the bank others are paying in what they had previously borrowed, or making new deposits, so that a balance is continuously on hand. Banks are also usually permitted to issue their own notes, which circulate throughout the

community as money and so increase the convenient facilities for exchange.

So large a part of the business of modern communities is now done by the aid of banking, through the drawing and exchanging of checks, that not more than 5 per cent., it is estimated, of the business is done by the actual use of cash. For illustration: A man draws a check on his bank account and hands it to a second party in payment of a bill. The second party may deposit this check to his own credit in the same bank, so that no money has changed hands and none has left the bank, but the bill is paid. If he deposits it in some other bank, this latter bank does not necessarily send to the first bank to collect cash for the check. The first bank may have received checks on the second bank in the same way, and in such case the accounts of the two banks against each other, if they do not fully balance, will nearly do so, and the amount of cash that changes hands in the final settlement between the two may not be a hundredth part of the entire transaction.

In this way banks are constantly receiving on deposit checks against other banks, and in large cities "clearing-houses" have been established, where messengers from each bank meet every day and exchange these demands upon each other, and pay over in money only whatever balances may exist. For instance, bank A comes with checks amounting to \$20,000 against bank B, and bank B comes with checks amounting to \$19,000 against bank A. Instead of each paying the cash for these respective claims, they exchange \$19,000 worth of checks, and bank B pays over in cash \$1,000 for the extra amount of checks bank A holds against it. All the money required to settle the whole transaction is \$1,000. This is done to the extent of hundreds of millions of dollars every day in

the large centers, permitting an amount of business that would be utterly impossible if there were no banks and every dollar's worth of business had to be transacted by the exchange of actual cash.

67. The Two Banks of the United States. The United States has had a great variety of experience in banking. Some of the early efforts were very crude and mostly futile. The first real bank in the United States was the Bank of North America, which was organized in Philadelphia by Thomas Paine and Robert Morris and chartered by congress December 31, 1781. It had a capital of \$400,000 and rendered great service in financing the latter stages of the revolutionary war, but did not command the full confidence of the people, and therefore it did not continue long as a national bank. It soon obtained a charter from the state of Pennsylvania, and still exists, having become a national bank in 1863.

The next serious effort at banking was the first Bank of the United States. It was the creation of Alexander Hamilton, who outlined the plan for it in his report of 1790. On February 25, 1791, a law was passed granting the bank a charter for twenty years. The bank was eminently successful and paid a profit of 8 per cent. to its stockholders. Its capital stock was \$10,000,000, of which the government held \$2,000,000, which it sold at a profit of 57 per cent. (including the dividends) on its investment. Jefferson and his party were opposed to the bank on principle, because they were opposed to anything of a centralized or national character. On account of this opposition, when the bank's charter expired in 1811 its renewal was defeated by one vote.

Upon the death of this first Bank of the United States, numerous state banks began to appear, first in New Eng-

land, then in other states, each issuing its own notes, and the whole currency system fell into disorder and disrepute. During the war of 1812 with England these banks suspended the custom of redeeming their notes in coin, which caused the notes to depreciate greatly in value. The government was hard pressed and could not pay interest on its bonds, and relief was only obtained by chartering the second Bank of the United States on April 10, 1816.

Like its predecessor, this bank soon had a steadying effect on the currency. It commanded the confidence of the nation, and, though beginning business in the midst of financial panic (1817), in a short time, through its system of coin redemption and branch banks, it brought the currency of the whole country up to par. Its deposits rapidly increased, its notes were everywhere gladly accepted, and it became a prosperous financial institution, paying profits to its stockholders and establishing financial stability in the nation. But Andrew Jackson, like Thomas Jefferson, did not like the bank, and made a fierce political attack upon it. The bank was endorsed by congress and by the business men of the country, but Jackson was determined to overthrow it and vetoed the bill for its renewal, on July 10, 1832.

At a meeting of his cabinet in September of the following year (1833), Jackson announced his determination to remove the public money from the Bank of the United States and deposit it elsewhere. His secretary of the treasury, William J. Duane, declined to obey the president and stop depositing funds in the bank. He was at once removed and Roger B. Taney appointed in his place. Secretary Taney promptly obeyed the president and began withdrawing public money from the Bank of the United States for government expenses and making all

new deposits in certain state banks, which were nicknamed "pet banks."

The bank had been chartered for twenty years, and, therefore, ceased to exist as the Bank of the United States in 1836. It obtained a charter in Pennsylvania, under which it operated until 1841, when it failed. This disruption of the Bank of the United States was followed by financial chaos, resulting in the terrible panic of 1837.

68. The Sub-Treasury System. Because of the insecurity of the state banks, the government soon ceased depositing money in them, and in 1840 established the "sub-treasury system." This, in principle, is exactly what Lincoln called it—the "miser's iron box." It locks up the money of the government in iron vaults built in huge granite buildings, for safekeeping until required for government purposes. No other civilized government has any financial system so nearly approaching the methods of barbarism as the sub-treasury system of the United States. All other governments put the state revenues on deposit in some bank or banks, either owned by the government or by private individuals under government supervision. By this means the funds of the government are in circulation for the benefit of the community, like the funds of private individuals deposited in banks; so that, if the government accumulates large amounts of money it does not reduce the circulation of the country. But under the sub-treasury system every dollar that is collected by the government contracts the currency, because it is taken out of or prevented from entering the circulation as completely as if it were destroyed. This is one of the bad features of our present monetary system, which will some day have to be reformed.

69. National Banking System. When the civil war broke out, in 1861, the country was in a demoralized

financial condition. The wrecking of the Bank of the United States had left only state banks and the sub-treasury system, which had no organized relation with or among each other. Hence the credit of the nation was very poor. The government was unable to borrow money abroad, and there were practically no united financial sources from which to borrow at home. Not nearly enough could be borrowed from individual sources and separate banks, and therefore the government, in February 1862, was obliged to begin issuing legal-tender paper money—the "greenbacks." These were issued on the faith of the government, were not subject to coin redemption, and therefore fluctuated in value according to the defeat or success of the union armies.

In February, 1863, congress passed a national-bank act, under which banks could be organized and issue notes by purchasing government bonds and depositing the bonds with the government as security for the notes. They were allowed to issue notes to the amount of \$90 for every \$100 worth of bonds deposited. One object of this was to enable the government to sell its bonds in order to furnish funds for the war. The banks did not take kindly to this, but to enforce its success the law provided that a tax of 10 per cent. should be levied upon the note circulation of all banks which did not organize under the national banking system. This tax was so great that none of the state banks could afford to issue notes, and consequently only national-bank notes have been issued since the passage of the national banking act.

This national banking system is anything but a perfect method of banking. It is rigid and expensive, as we shall see by comparing it with the systems of other countries. These crude features are the results of the conditions under which it was born, however, and in the emergency

of the civil war, with nothing but state banks and the sub-treasury system to rely upon, it served a useful purpose.

SUGGESTED READING.

In White's "Money and Banking," Book II., Part II., on "Banks." This contains both a discussion of the theory and practical working of banks as a part of the mechanism of exchange, and a history of banking experience in the United States.

In Conant's "History of Modern Banks of Issue," Chapters XIII. and XV., on "The Bank of the United States" and "The National Banking System."

In Handy's "Banking Systems of the World," Chapters I. and II., on "Banking in the United States Before the National Bank Act" and "The American National Banking System."

In "Sound Currency" (Reform Club Compendium), the sections on "National and State Banks."

EXTRACTS FROM READINGS.

Banks and Note Issuing. "At common law, anybody may issue his promissory notes and put them in circulation as money if people are willing to take them. It was found in course of time that the exercise of this right was exposed to accident and liable to abuse, and that the state must interpose for the protection of society against knaves and fools. At first it was believed that such protection could be secured by restricting the issue of circulating notes to a select number of persons of well-known character, generally, but not always, incorporated as a bank. Thus the three bank charters granted in this country before the adoption of the federal constitution, which banks still exist (the Bank of North America, in

Philadelphia, the Bank of Massachusetts and the Bank of New York), contain no mention of circulating notes, since the right to issue them existed without legislative authorization.”—From White’s “Money and Banking,” Chapter I., Book II.

Our National Banking System. “The national banking system of the United States had its origin in the management of the finances during the civil war. The system was hardly in operation until the war was two-thirds over, but it offered a market for the public securities which contributed materially to raise their price in the depreciated paper with which the government discharged its obligations. The system afforded the country for some years a currency having the advantages of uniformity and security, and possessed in these respects a great advantage over the bank currency of the different states which had before been in use. The national banking system, however, great as were its services in absorbing the evidences of the public debt, always lacked the essential feature of a purely banking currency. The currency was without elasticity, in the sense of responsiveness to the demands of business, and the volume fluctuated only with the price of securities. The gradual reduction of the public debt has removed the basis for national bank-note circulation until it has become but a trifling factor in the currency system of the country, and a strong demand has arisen for the separation of the note issues from public securities.”—From Conant’s “History of Modern Banks of Issue,” Chapter XV.

QUESTIONS FOR REVIEW OR DEBATE.

1. What are the two principal functions of banks? Which is the more important?
2. In what way does a bank obtain funds to loan to business men?
3. In what way are banks enabled to increase the money circulation of the community?
4. About what proportion of the business of modern countries is done by the actual use of cash? How is the rest of the business transacted?
5. Explain the process by which the use of checks may permit large business transactions without any exchange of money.
6. What is a clearing-house? Explain how it enables banks to settle accounts with the use of very little money.
7. State briefly the history of the first Bank of the United States, by whom it was originated, and what it achieved.
8. How did the second Bank of the United States come into existence, what did it accomplish, and in what way was it overthrown?
9. Describe the sub-treasury system. How did it originate and what is its chief defect?
10. How did our present banking system originate?
11. What good purpose did it serve in its early days?
12. How was the power of note-issuing practically restricted to national banks by the national-bank act?
13. In what ways, chiefly, is our banking system defective?

CHAPTER XVII.

BANKING—*Continued.*

70. The English Banking System. The banking system of England is different from that of any other country. It cannot be called a scientific system, yet it includes some of the most scientific features of banking. Like the English constitution, it is a gradual evolution, based on the slow accumulation of experience. That is to say, it has had no arbitrary breaks in it such as have occurred in the banking experience of this country.

The English system has grown up around the Bank of England, which has existed a little over 200 years. It was organized in 1694, on a plan formulated by William Patterson, an obscure Scotchman. The immediate object of the bank was to provide a way of advancing a loan of £1,200,000 to the government, from the wealthy merchants of London. By the act incorporating the bank, this loan to the government, for which the bank received 8 per cent., was its capital, against which it could issue paper currency. This loan was increased by 1696 to £2,201,000, in 1710 to £5,560,000, and in 1816 to £14,553,000.

The bank had several severe experiences, being more than once compelled to suspend redeeming its notes in coin. In 1844 a new bank act was passed which permanently fixed the character and condition of the Bank of England and its relation to the banking system of the country. By this act the bank was divided into two de-

partments, a department of note issue and a department of banking. The first has exclusive control over the issue of paper money, the second over the receiving of deposits and making of loans. On the passage of the new act, securities to the value of £14,000,000, of which the debt owed by the government to the bank (£11,015,100) formed a part, were transferred to the note-issue department, and the bank was permitted to issue notes, to the amount of this £14,000,000, but all paper currency issued above that amount must be covered by coin actually in the bank. In other words, this £14,000,000, £11,015,100 of which was government debt, was the limit to which the bank was permitted to issue paper money unsecured by coin in the bank.

At the time of the bank act of 1844 there were in England 207 private banks with a total note circulation of £5,153,417, and 72 joint-stock banks with a total note circulation of £3,478,230. The act of 1844 provided that the note circulation of the country banks should be limited to the average amount issued by those banks during the twelve weeks preceding the passage of the act. It further provided, however, that in case any of the country banks should go out of business or surrender their note circulation, the Bank of England should have the right to add to its circulation an equal amount, so that the country's currency should not be diminished by the decrease of small banks. Since 1844 about 180 private and joint-stock banks have ceased issuing notes; which has added £2,800,000 to the Bank of England's note circulation, making £16,800,000 of paper currency for which there is no gold security in the bank.

It should be added, however, that for this exclusive privilege of issuing notes the bank pays the government an annual sum of £200,000, and on the other hand the

government pays the bank interest on the £11,015,100 debt at the rate of $2\frac{3}{4}$ per cent. In other words, the bank receives $2\frac{3}{4}$ per cent. on the money advanced to the government, and has the privilege of issuing notes to the amount of £16,800,000 by paying the government £200,000 a year. But, by virtue of the unquestioning faith of the English nation in the bank's stability, the bank act can be suspended at the suggestion of the chancellor of the exchequer, permitting the bank to enlarge its issue of notes to any needed amount. Thus, in 1866, when the failure of Overend, Gurney & Co., with liabilities of £18,727,915 occurred on May 10, precipitating the panic of "Black Friday," May 11, the bank act was suspended, permitting indefinite issue of notes (which, however, was not found necessary), and the panic subsided. Thus, by a peculiar arrangement growing out of custom rather than law, the feature of elasticity is supplied and the English banking system has both stability and flexibility, which makes it one of the most successful banking systems of the world.

71. The French Banking System. The banking system of France, like its government, has gone through many changes, but at present it centers around the Bank of France. This was founded by Napoleon in 1800, as some think in imitation of the Bank of England. At first it was the only bank in Paris which had the right to issue bank notes. Local or departmental banks, as they were called, existed in other parts of the country. In 1848, on the overthrow of Louis Philippe, coin redemption of notes was suspended and the notes of departmental banks and of the Bank of France were made legal tender. In the case of departmental banks, the legal tender applied only to the department or district in which the local bank existed, while notes of the Bank of France were legal

tender throughout the country. This practically paralyzed the circulation of the country banks, and within about a year the departmental banks were all merged into the Bank of France, whose note circulation was increased by the total amount of the circulation of the small banks.

Since that time the Bank of France has had a monopoly of the note-issuing power. Its notes are legal tender, but only so long as they are redeemed by the bank on demand in either gold or silver coin, at the option of the bank. Its power of issuing notes, while very large, is not unlimited. In 1848 the limit was fixed at 350,000,000 francs; in 1849, at 526,000,000; in 1870, at 1,800,000,000; in 1871, at 2,800,000,000; in 1872, at 3,200,000,000; in 1884, at 3,500,000,000; in 1893, at 4,000,000,000, and it has since been raised to 5,000,000,000. While the bank is a private institution, it is under such strict government supervision as practically to create the impression among the people that it is a government institution. Despite the fact that France is a republic, the French people, by habit and tradition, are greatly influenced by the idea of governmental authority. The French government has changed several times during the century, but the bank has continued and has all the time seemed in the popular mind to be identified with the governing authority, under whatever form. This is largely what has given the Bank of France its great stability.

72. German Banking System. In Germany the development of banking methods has come along similar lines to those in England and France. In some respects, however, the German system is better than either of the others. Before the Franco-Prussian war each of the German states or principalities had a banking system of its own. As a part of Bismarck's policy of national union,

an act was passed in 1875 creating the German Imperial Bank, or, rather, practically making the Bank of Prussia into the German Imperial Bank. The Bank of Prussia had been established in 1765 and was a state institution.

The German Imperial Bank is a private institution, but is managed by the government. That is to say, the ownership of all the stock is in private hands, but the methods of management of the old Prussian bank are practically retained. The control of the bank is vested in a council composed of the chancellor of the empire and four curators, one named by the emperor and three by the federal council. The chancellor or a substitute named by him is practically in charge of the administration of the bank. As an economic institution it is a private concern, the profits going to the stockholders, but the management is exercised by the government.

At the time of the creation of the Imperial Bank there were 32 provincial banks which had hitherto enjoyed the right to issue notes. The Imperial Bank was given the right to issue notes without coin security, based upon the assets of the bank, to the amount of 250,000,000 marks. The new law treated the country banks very much as did the law in France—forbade their right to circulate notes outside the local province in which they belonged, while the notes of the Imperial Bank circulated throughout the empire. It also provided, as did the Bank of England act (1844), that if any of the country banks declined to accept the conditions of the new law, or for any other reason ceased to issue notes, the Imperial Bank might add an equal amount to its paper circulation. About 20 of the 32 provincial banks have since discontinued issuing notes, on account of which some 46,000,000 marks have been added to the note circulation of the Imperial Bank, making a total of about 296,000,000 marks.

Another feature of the Imperial Bank is that, in addition to the unsecured note circulation, it is permitted to issue notes without any cash reserve by paying a tax of 5 per cent. on the added circulation. This tax acts as a check, and of course prevents the bank from increasing its circulation except under pressure of great business need. This feature gives elasticity to the paper currency of Germany whenever emergencies may arise. The cash reserve of the bank, however, must always be at least one-third the total amount of note circulation, the other two-thirds being covered by short-time bills of exchange endorsed by solvent names.

73. The Canadian Banking System. Banking in Canada is entirely a private affair, subject only to the conditions imposed by the banking laws of the dominion. In many respects the development of banking in Canada has followed the lines of the Scotch banking system, which has no superior in Europe. The Canadian bank law of 1890 provides that a bank must have a capital of at least \$500,000, one-half of which must be paid to the minister of finance, which, after all the conditions of organization are complied with, is returned to the bank. Each bank must keep on deposit with the government cash equal to 5 per cent. of its average note circulation during the previous year, and these 5 per cent. deposits constitute a fund for the redemption of notes of failing banks. No deposit of bonds is required as in the United States. The banks have the right to issue paper notes equal to the full amount of their capital. These notes are secured by the capital of the bank, by its assets, and by the liability of stockholders to double the amount of their stock.

The large capital required makes very small banks impossible, but the Canadian law provides for a system of branch banks, with full power to issue notes and afford

accommodation to business. Thus small communities have extended to them the advantages of the banking facilities and safeguards of the great centers. By this means, both the capital and the credit of the large banks are extended to the remote regions of the dominion, so that out in Manitoba a business man can borrow money on nearly the same terms that it can be secured in Montreal; whereas, in the United States the farmers of the South and West frequently have to pay two or three times as much interest as business men in the East.

Security of the notes is obtained by the provision that no bank notes are legal tender. They must be sent for redemption to certain centers where each branch bank has to keep a balance from which its notes may be redeemed. This causes the notes of each bank, falling into the hands of other banks, to be sent home for redemption, exactly the same as individual checks are promptly sent for collection. In this way the solvency of every bank is tested every day, since the moment it fails to redeem its notes in coin it has to stop business, and all its assets, including its capital, for which each stockholder is liable for double amount, are appropriated to redeem its notes. Moreover, all the capital of the branch banks and the central banks is behind every dollar of notes issued by any one branch. This gives the greatest security with the greatest freedom of banking facilities and business accommodation. There are less than forty banks in Canada, but they have an aggregate of about five hundred branches.

By this method of having branch banks connected with great central institutions, instead of little isolated banks, Canadian bank notes are secured by eight to ten dollars for every dollar of notes issued throughout the country. Thus, through scientific organization, there

is eight to ten times as much security to note circulation in Canada as the bond-deposit method gives in the United States, and with greater freedom of expansion, less expense, greater accommodation to the community at much lower rates of interest, and, above all, with approximately the same rates of interest to the remote farmers as is given to business men in the great financial centers. All in all, the Canadian is the most democratic, most scientific and probably the most smoothly working and useful banking system in the world.

SUGGESTED READING.

In Conant's "History of Modern Banks of Issue," Chapters IV., V. and XVI., on "First Century of the Bank of England," "Second Century of the Bank of England" and "The Canadian Banking System."

In Handy's "Banking Systems of the World," Chapters III. to XIV., inclusive, describing the banking systems of the principal European countries, Canada, Mexico, Central and South America, Australia, and, such as exist, in Asia and Africa.

In "Sound Currency" (Reform Club Compendium), the sections on "Canadian Bank-Note Currency" and "Scotch Bank Currency."

EXTRACT FROM READINGS.

Merits of Canadian Banking System. "One of the important benefits inherent in the Canadian bank-note circulation is its elasticity. This is not due affirmatively to recent legislation, but is due to the successful resistance of Canadian bankers to government propositions for a specially secured currency. The banks pay out the notes when business activity demands them, and the notes drift back for deposit and the settlement of discounts when

business activity slackens. The circulation thus varies nearly fifteen per cent. in the course of a year. . . .

"The banking experience of Canada in recent years is a sufficient vindication against the charge that a banking currency leads to inflation. The volume of notes usually in circulation exceeds by only a small fraction 50 per cent. of the aggregate capital stock of the banks, although they are allowed to issue to the full amount of their capital. Some of the banks have occasionally touched the maximum limit and the branches have been promptly notified by telegraph when the limit has been reached. A real demand for money from such banks is met by loans to them from banks which have not reached the limit. . . .

"The effect of the Canadian system has been to make the rate at the most distant interior branch not more than 1 or 2 per cent. higher than to the best borrower in Montreal or Toronto, while in the United States rates range between 10 and 12 per cent. in the newer sections of the country, while money is a drug in the market in the great reserve cities. The effect of the comparative unity of Canadian banking without the evils of monopoly which sometimes accompany such unity, is to diminish failures and protect a bank against local losses by the profits in other localities. The management at the central office are able to keep a sufficiently close watch upon every branch to prevent reckless banking and bad management, but they are willing to conduct a branch in many cases at a rate of profit which would not justify the maintenance of a separate bank or even of a branch bank without the power of note issue. The Canadian system, therefore, permits the extension of banking facilities more efficiently than the American system of small independent banks, and the power to issue notes against

general assets affords a margin of profit and a diminished expense for cash reserve which would not be afforded by a specially secured note issue."—From Conant's "History of Modern Banks of Issue," Chapter XVI.

QUESTIONS FOR REVIEW OR DEBATE.

1. In what year was the Bank of England organized, and what was its original object?
2. What were the principal features of the English bank act of 1844?
3. What is the present limit of the Bank of England's unsecured note circulation? In what way has the limit prescribed by the law of 1844 been increased?
4. In what way can the Bank of England expand its note circulation in times of emergency?
5. When and by whom was the Bank of France founded?
6. In what way did the Bank of France acquire the sole right to issue notes in that country? What is the present limit of its note-issuing privilege?
7. Under what conditions only are notes of the Bank of France legal tender?
8. What peculiarity of the French people has greatly aided the stability of the Bank of France?
9. How and when was the German Imperial Bank organized? How is the bank managed, and who owns the stock?
10. In what way has the German Bank increased its legal limit of unsecured note circulation beyond the 250,000,000 marks permitted in 1875? What is the present limit of such circulation?
11. In what way may the German Imperial Bank increase its circulation in emergencies? What proportion of its total note circulation must be covered by cash reserve in the bank?
12. Upon what European system of banking is the Canadian system chiefly modeled? Since what year have Canadian banks been organized under the present system?
13. What is the minimum amount of capital required of a bank in Canada, and what proportion must be paid up at the outset?

14. In what way is the general fund for redeeming the notes of failing banks made up, under the Canadian system?
15. What is the limit on the note circulation of Canadian banks, and how are these notes secured in case of failure of the bank?
16. Mention some of the advantages of the branch-bank system in Canada, and state about how many branch banks there are, compared with the number of central banks.
17. What effect has the Canadian banking system on interest rates in various parts of the dominion? Why is this?
18. In what way are Canadian bank-notes constantly tested and kept at par?
19. What is the approximate amount of security behind each dollar of bank notes in Canada, especially as compared with the security of bank notes in the United States?
20. What may be said in general of the comparative merits of the Canadian banking system?

CHAPTER XVIII.

BANKING—*Continued.*

74. Banking Reform. Since the close of the civil war in this country considerable progress has been made towards establishing a sound monetary system. In 1879 the government resumed the redemption of greenbacks in gold; they had been at a discount, but when they were made as good as gold by being exchangeable for gold at the United States treasury they at once rose to par. The large purchases of silver under the Sherman law of 1890 were stopped by repeal of that law in 1893. Free coinage of silver dollars at the ratio with gold of 16 to 1, which dollars, at the present (1901) price of silver, would contain only about 50 cents' worth of silver bullion, has been very definitely rejected by the people; and, by the law of March 14, 1900, the gold dollar of 25 8-10 grains, 9-10 fine, was formally declared to be the "standard unit of value." This law also improved our national banking system somewhat by permitting banks to issue notes up to the full face value of the bonds deposited as security for such notes, instead of to only 90 per cent. of such value; and permitting the organization of banks with only \$25,000 capital instead of \$50,000 as before. All this has been along the line of improvement, but thus far nothing has been done to give automatic elasticity to our bank-note currency, and this is an essential feature.

75. The Need of Elastic Currency. Automatic elasticity, of course, means that the system be such that

the quantity of bank notes in circulation will diminish and increase according to the business requirements of the country. A system which will only expand and not contract is not elastic, it only permits inflation. This element of elasticity, by which the volume of paper money will contract as well as expand, is what makes the Canadian and Scotch banking systems superior to any others.

As explained in the previous chapter, the Canadian system (which is much like the Scotch) acquires its safe automatic elasticity by the scientific method of having no legal-tender notes, but making all bank notes subject to daily coin redemption at designated redemption centers. Instead of having a multitude of separate small banks, the banking facilities in rural communities are furnished by branch banks. In this way the great bulk of the banking capital of the whole country is so integrated and organized that it serves as security for the notes of all the banks, in the rural communities as well as the large centers.

76. How to Reform the American System. In all the more essential respects, the United States is similar to Canada and radically different from England, France or Germany. A government bank with any such political control as exists in European countries is an impossibility for this country, and it is well that it is so, since the same object can be accomplished better by strictly scientific methods. The two Banks of the United States had the elastic element and the branch-bank feature, but they had a certain amount of government control, and this political association wrecked them. Had the second Bank been free from politics, Andrew Jackson could not have crushed it, nor would the motive for political contest have arisen. The Canadian banks have the good qualities of the old Banks of the United States,

the branch system, non-legal-tender currency and daily coin redemption of notes, and they are free from state management and political influence.

The step in banking reform that remains to be taken in this country is to embody in our banking system the essence at least of these distinguishing features of the Canadian banks; or, what is the same thing, readopt the principle and methods of the Banks of the United States minus the political element. This would require several important changes:

First. The retirement of all government legal-tender paper money. Our present government notes are fixed in quantity and, therefore, non-elastic. If they are abundant enough to supply the needs of the country at the seasons of greatest borrowing, they furnish a surplus of unnecessary currency at the other seasons of less demand, and so stimulate risky speculation and undue industrial inflation. There is another great disadvantage to these notes. In order to keep them at par the government must constantly redeem them in gold on demand, and then has to pay them right out again in meeting public expenses, so that private parties can again present them for gold and, by repeating this over and over, can practically force the government to borrow gold to supply the business needs of the community. Thus the government can be compelled to pay interest on a debt incurred to furnish business men with monetary accommodation which they ought to supply for themselves and bear the expense themselves. This process has come to be known as the "endless-chain" system. Between 1894 and 1896 more than \$260,000,000 was borrowed by the government, partly on account of deficient public revenues, but very largely because these government notes were being constantly

used to draw gold out of the treasury. This kept reducing the gold reserve below the customary limit, and gold had to be borrowed at interest to maintain the reserve.

Moreover, if a scientific banking system should be adopted in this country the legal-tender government notes remaining in circulation would prevent daily coin redemption of bank notes at the banks, because, the government notes being legal tender, banks could use them instead of coin to redeem bank-notes, which would only be giving paper for paper.

The retirement of government legal-tender notes might be accomplished by requiring the banks of the country to assume the responsibility of redeeming them on demand, giving the banks in exchange for this the privilege of issuing their own notes to the limit of their capital, as in Canada, without requiring them to deposit bond security as at present.

Second. In order to carry out this arrangement, it would of course be necessary to repeal the present bond-security law. An additional reason for this is the fact that if bank notes were still secured in this way they would almost never be sent in for redemption, and so the currency would remain as inelastic as at present, neither expanding nor contracting according to business needs. The 10 per cent. tax on state bank circulation, which has practically prevented any development of banking in the South, could safely be repealed under this readjustment of our banking system.

Third. Provision should be made for establishing branch banks throughout the rural sections of the country, and, as a part of this, certain banks should be designated as redemption agencies at convenient centers.

These reforms in our banking system would abolish the "endless chain," remove the prohibitory 10 per cent.

tax on state banks without incurring any danger of unsafe inflation, and make the whole banking system of the country one efficient, organized network of financial accommodation. It would practically place the entire capital, deposits and other assets of the banks of the country behind the whole paper circulation, which would give from ten to fifteen dollars security for every bank note issued. This, of course, is many times greater security than the government now furnishes for its legal-tender notes, or "greenbacks."

Under such a system, with proper safety-fund arrangements, the expansion and contraction of the currency would be automatically governed by the business needs of the nation, and the safety of the currency would be guaranteed by the constant coin redemption of every bank's notes. Last, but not least, comprehensive reform on these lines would remove the abnormal differences in the rates of interest in different sections of the country, which is one of the greatest hardships under our present banking system, especially to the farmers of the South and West.

SUGGESTED READING.

In Conant's "History of Modern Banks of Issue," Chapter XXIII., on "The Advantages of a Banking Currency."

In Jevons' "Money and the Mechanism of Exchange," Chapter XXI., on "The Clearing-House System."

EXTRACT FROM READINGS.

Advantages of Bank-Note Currency. "Currency should be the hand-maid of commerce rather than the instrument of public power. A government paper currency has rarely been issued to promote the convenience of

commerce and has seldom contributed to that end. The success and convenience of paper credit in balancing business transactions has led in many minds to a false analogy between the evidences of such credit and stamped pieces of paper, issued by governments in discharge of public obligations. Governments have even gone further and claimed that the power to issue paper pledges for general circulation, payable to bearer on demand, was an attribute of sovereignty and could not be lawfully assumed by a citizen or a corporation. But this is not the true theory of currency. Experience, as well as theory, has proved that government paper money is essentially different in character from banking paper and opens a Pandora's box of evil for every nation which issues it.

"The difference between government paper currency and bank notes is not one of experience or accident merely; it is a difference which is fundamental. Banking institutions are subject to the law; the state is the power which makes the law. Bank paper is based upon business transactions and is limited by their demands; government paper is based upon the will of the state and is limited only by its necessities. The almost invariable rule of government paper issues is that one begets another, until the entire volume exceeds the legitimate demands of business, upsets values and goes beyond the reach of restoration to the metallic standard. A government is not only not under [any] restraint of law when tempted to pass the limits of safety in its paper issues, but there are no natural and automatic limits fixed by the conditions of the note issues, as in the case of banks. A banking currency, when not disturbed by the public authority, except to enforce uniformity, safety and convertibility with coin, is automatically responsive to the de-

mands of business. When business is active such a currency is expansive in proportion to its needs; when business slackens the notes return to their issuers for redemption, the volume of paper money is reduced and the parity of coin and paper is constantly maintained."—From Conant's "History of Modern Banks of Issue," Chapter XXIII.

QUESTIONS FOR REVIEW OR DEBATE.

1. Mention some of the steps of progress in monetary and banking reform that have been taken in this country in the last thirty years.
2. What were the principal features of the banking and currency law of March, 1900?
3. What is meant by automatic elasticity in a banking system?
4. Why are the essential features of the Canadian banking system better suited than any of the European systems for adoption in the United States?
5. Why would it be necessary to retire the present government legal-tender notes, or "greenbacks," in order to establish a sound banking system?
6. What is meant by the "endless-chain" system? Explain how this has operated and can operate to drain the public treasury of gold coin.
7. How could the government legal-tender notes be retired without expense to the government or contraction of the country's currency?
8. Why could we safely repeal the present bond-security law and the tax on state banks if a scientific banking system like the Canadian were adopted?
9. Mention some of the chief advantages that would be secured by adopting such a system, including the branch-bank feature.
10. How would the security of bank-notes under a scientific banking system compare with that under our present system?

CHAPTER XIX.

THE STATE AND CAPITAL.

77. Corporations and the Public. Practically all the more important forms of capitalist production to-day are carried on by corporations. Although corporations are not peculiar to the United States, they are more prevalent here than anywhere else, for the reason that ours is comparatively a new country. Industrial progress has been so extraordinary as to require more capital than individual business enterprises could command. The corporation method brings together the savings and profits of great numbers of individuals in large and small sums, and, through the sale of stock abroad, secures foreign capital in addition, thus making very large concerns possible and furnishing opportunities of investment for people of relatively small means. Corporations in this country have increased in size as well as multiplied in number, until some of the largest concerns now have hundreds of millions of capital invested and extend their sales into all parts of the country.

The true relation of the government to these corporations is similar to its relation to the citizen. It should secure to them the opportunity to perform their most economic and useful function and prevent them from injuring other people. The state legally creates the corporation by granting it a charter, and it is the duty of the state to protect what it thus brings into existence, so long as the corporation continues to perform the legitimate economic functions for which it was established.

One of these functions relates to the stockholders of the corporation, the other to the public. The object of the corporation is to secure profits for the owners of the capital invested, but the object of the public in granting the charter is that the corporation should render beneficial service. Its service to the stockholders is profits, its service to the public is better or cheaper goods or accommodation. Whenever a corporation, which exists only by permission of the public through the government, seeks to secure profits by arbitrarily increasing the price of its products or deteriorating their quality, or in any other way acting contrary to the proper interests of the community, it becomes a public enemy and should forfeit its right to state protection. The interests of the public should never be made subservient to the interests of corporations. Capital is simply an economic tool, and its protection and encouragement are justified only in so far as it serves the public better than any other means for accomplishing the same purpose.

78. Corporations and Individuals. With the steady growth in number and size of corporations, individual enterprises become relatively fewer and less significant. A large and increasing number of enterprises which, fifty years ago, were conducted by individuals or firms, have passed entirely over to the domain of corporations. This transition has taken place because the corporations, by means of their large capital and wide relation with the world's commerce, have been able to do the work either better or more cheaply, and in many instances both, than individuals. It is not that the individual cannot do the same work or do it as well now as fifty years ago, but rather that the corporations can do it cheaper or better, or both, than the individual did then or can do now. By very many people this fact is frequently regarded with

apprehension, and even alarm. They think they see in it the subordination of the individual to the corporation, and this to their minds means the decay of the independence and character of the American citizen. Although at first sight this is a plausible and seemingly logical conclusion, it is not sustained by history.

To assume, as very many do, that the individual laborer who works for himself is superior in individuality and citizenship to the man who is employed by another is in the great majority of cases an error. The opposite is more frequently true. The intelligence, independence and character of the people does not depend upon whether or not they work for themselves, but chiefly upon whether their incomes, leisure and opportunities, outside the time devoted to making a living, are sufficient to enable them to live broad, many-sided lives, and bring them in touch with the world's great refining, educating, stimulating and developing influences. It is a fact of experience that under a state of industrial civilization where most of the people carry on small, individual enterprises, the incomes are relatively small, the labor hard and the leisure limited, the methods crude and the expense of production high in proportion to the results. Under such conditions, the social life is simple and usually monotonous, and the political importance of the citizen in public affairs and control of the government is relatively meager. The reason for this is that the productive methods are necessarily so slow and laborious that the individual is obliged to devote his whole energies to procuring a living, and therefore has little incentive or opportunity for the other and broader and more refining sides of life.

But, under the corporate method of production, which, by the use of scientific processes and large plants, yields

so much more wealth with relatively less per capita effort, the great mass of the working community gain in many ways. They gain as consumers by getting products at lower prices, and they gain as workers by having more permanent occupation, more definite income, and relief from wearing responsibility and care in matters which contribute practically nothing to the higher and finer aspects of character development. More than this, where industry is carried on by large groups of people working in factories under uniform conditions, the government can step in to establish a shorter working day, better sanitary conditions and more definite protection to personal rights, as it is nearly impossible to do with small, isolated industries. The difficulty of restraining the sweatshop evil, which is a problem of small, hand-labor industry conducted in individual homes, illustrates the difference between individual and corporate production in this respect.

Still further, the opportunities for young men, which it is often declared are disappearing, are in reality increased by the multitude of new industries and new occupations which the economy of machinery and corporations makes possible. The great corporations are constantly in demand of persons of ingenuity and special ability. In the country towns, where this type of industry has not appeared, the opportunities are nearly zero, and hence the more enterprising and energetic young men migrate to the cities, where corporations are the rule and where the greatest amount and variety of opportunity for individual advancement exists.

79. The "Trusts." So-called "trusts" are simply large corporations. A few years ago there was a peculiar kind of "trust" organization, by which a committee would take control of the affairs of a group of distinct

establishments and manage them "in trust," practically as one concern, although each company retained its separate legal existence. It was in this way that the term "trust," as connected with large corporations, came into use. This form of organization has now practically disappeared, and the "trusts" have reorganized as ordinary stock corporations, differing from small companies only in the matter of size.

The duty of the state towards these large corporations is just the same as towards the small; namely, to protect them in their charter rights so long as they fulfill their proper and legitimate economic functions and prevent them from inflicting injury on the public.

80. Public Regulation of Corporations. A corporation, like an individual, has an economic and moral right to secure legitimate competitive supremacy if it can and to have the reward of that supremacy. To deprive the superior competitor of the reward for his superiority is to destroy competition and progress. But there is such a thing as unfair competition, and here the duty of the state again comes in. Corporations may become very large in the strictly proper development of their productive efficiency, but there is no reason why they should have unjust special privileges or be permitted to use unfair methods of competition. For example, large corporations, in order to drive small competitors out of the field, will sometimes reduce the price of their product in the immediate neighborhood of the competitor, below cost, suffering a direct loss in order to drive the competitor out of the field, and when this is accomplished will put the price up again, perhaps even higher in that locality than it was before. This is not fair or legitimate competition. It is immoral as well as uneconomic, and should not be permitted if there is any

legal way of preventing it. Large concerns should be restrained from driving small competitors from the field by such methods. This is a difficult problem to reach by legislation, yet it might possibly be successfully provided that every concern selling goods in different parts of the country must sell them at a uniform price for the same quantity and quality, allowing only for the greater cost of shipping to distant points. For instance, a corporation should not be permitted to sell its goods in a particular town at prices materially lower than it charges in other towns in that vicinity, for the sake of destroying a small competitor. Any exceptional lowering of prices in a given community, disproportionate to the price asked by the same concern at other points of similar cost of shipment, is an uneconomic attempt to destroy competition and is against the public weal. Such attempts should be treated as offences punishable by law.

Discrimination in favor of large shippers, in the matter of freight charges by railroads, is another form of unfairness. Of course, if large corporations can have a permanent advantage over smaller concerns in the freight rates on their goods, they are thereby enabled to control the market, not by their economic superiority but by unfair discrimination in their favor. Clearly, it should be effectively provided by law that all railroads and common carriers must transport the goods of large and small producers at the same rates for the same quantities. That is to say, carload rates should be the same for all who ship in carload lots, whether a large corporation or an individual or firm. In order to guarantee this, every railroad company should be required to make regular detailed reports and be subject to official examination so far as concerns its rate charges. Every shipper should have the right to know the exact rates paid by all competing

shippers, in order that he may be able to protect himself from unfair discrimination.

There is plenty of room for wise and wholesome regulation of corporation methods, and these are the lines along which public effort should be directed, instead of making war on the whole movement of capitalistic organization, which is the great characteristic feature of modern industrial progress.

SUGGESTED READING.

In "Principles of Social Economics," Chapter VI., Part IV., on "Combination of Capital."

In Gunton's "Trusts and the Public," Chapters I., II., XIV. and XVII., on "The Economic and Social Aspects of Trusts," "The Economic Errors of Trusts," "Powers and Perils of the New Trusts" and "From the Public Point of View."

In Hobson's "Evolution of Modern Capitalism," Chapters V. and VI., on "The Formation of Monopolies in Capital" and "Economic Powers of the Trust." These chapters represent a point of view strongly antagonistic to large capitalistic organization.

In Hadley's "Economics," Chapter VI., on "Combination of Capital."

In the official report of the "Chicago Conference on Trusts," the addresses of Professor Henry C. Adams, of the University of Michigan; Professor John Bates Clark, of Columbia University; Mr. Henry White, general secretary of the United Garment Workers of America; Professor Jeremiah W. Jenks, of Cornell University, and Mr. M. M. Garland, ex-president of the Amalgamated Association of Iron and Steel Workers.

In Hadley's "Railroad Transportation: Its History and Its Laws," Chapters VII. and XIII., on "Railroad

Legislation in the United States" and "Results of State Railroad Management."

In Bulletin No. 29 of the United States Department of Labor (July, 1900), the report on "Trusts and Industrial Combinations," by Jeremiah W. Jenks.

For the point of view of a foreigner on American industrial organization, reference is made to von Halle's "Trusts or Industrial Combinations and Coalitions in the United States."

EXTRACTS FROM READINGS.

Potential Competition. "In the lucid intervals in which they tell the truth to the people, managers of trusts say that they cannot greatly raise prices without bringing new competitors into the field. As has been said, the foundation of a combination is liable to 'build mills,' and so to defeat the purpose for which the combination is formed. To keep the new mills from coming into existence a wise policy keeps prices at a moderate level. Within limits it is safe to raise them, but beyond such limits it is not safe. The competitor who is not now in the field, but who will enter it at once if prices are unduly raised, is the protector of the purchasing public against extortion. He is also the protector of the workmen, for the fact that he will begin his operations if too many of the old mills are closed prevents the closing of them. In technical phrase, it is potential competition that is the power that holds trusts in check. The competition that is now latent, but is ready to spring into activity if very high prices are exacted, is even now efficient in preventing high prices. It is to be the permanent policy of wise and successful peoples to utilize this natural economic force for all that it is worth."—From address of John

Bates Clark in official report of the "Chicago Conference on Trusts."

Conditions of Successful Concentration. "Among those trusts and other combinations that have had apparently a complete monopoly, a large number have made conspicuous failures, simply because they thought of high prices rather than large sales, and did not see that such a policy was suicidal. Perhaps the most striking illustration of this truth is furnished by the history of the French copper syndicate of 1888. By a series of brilliant financial operations, this syndicate obtained control of the copper product of all the best mines of the world. It attempted to raise the price of copper from 9 cents a pound to 16 cents. Everything was apparently favorable to the success of these operations. Copper was a necessity for use in the arts; the sources of supply where copper could be produced cheaply were few in number, and the syndicate had exclusive contracts with them all. The demand for copper was constantly tending to increase, owing to the new uses of electricity. The syndicate itself had very large capital and was supported by many of the strongest financial houses of Europe. Yet, with all these things in its favor, it failed disastrously, because the consumption of copper at the advanced prices shrunk to such a degree that all the calculations of the syndicate were deranged and its financial resources put to a strain which they could not stand. Even the strongest of monopolies must make its price low enough to cause the public to buy its goods or services to a sufficient extent to utilize its capital, and this price will usually be found to be nearly the same as that which would have been fixed by free competition.

"If a large industrial combination uses the advantage given by concentration of capital to render labor more

efficient and obtain a good profit at low rates, it has excellent chances of success. But if it makes such economy of labor a pretext instead of an object, and uses its monopoly to put prices up, the danger of failure is wholly disproportionate to the chances of success. Such a policy may succeed for a few years, but sooner or later it seems bound to ruin those who adopt it."—From Hadley's "Economics," Chapter VI.

QUESTIONS FOR REVIEW OR DEBATE.

1. What is a corporation? Why have corporations come to be the predominating instruments of carrying on production in this country?
2. In what way does the corporation make possible greater effectiveness in production while offering larger opportunities for small investors?
3. What is the true relation of the government to corporations?
4. Under what conditions ought a corporation to forfeit its charter privilege to carry on business and its right of protection by the state?
5. What fear is felt by many people regarding the effect of corporations on individual independence and character? Is this fear sustained by experience?
6. What circumstances connected with the citizen's industrial life really determine the extent of his intelligence, independence and individual character?
7. What is true of the general quality and civilization of the people under conditions of small individual industries and hand-labor production? Explain the reason for this.
8. Mention some of the ways in which the great majority of the people gain through the corporate method of production.
9. In what ways can the state interfere for the improvement of the citizen's working and living conditions under the capitalistic system of production, but which are not feasible where small, isolated industries prevail?
10. What may be said of the opportunities for young men under the era of corporations?
11. What is meant by "trusts"? How did this term arise?

12. Into what form have the so-called "trusts" now been converted? Is there any essential difference between these concerns and small corporations other than the difference in size?
13. What degree of freedom should the public grant to corporations and protect them in exercising?
14. In what way do corporations sometimes try to drive out smaller competitors by unfair means? How ought the public to deal with such offenses?
15. In what way do railroads sometimes become the instruments of unfair competition between large and small producers? How ought the public to interfere in such cases?
16. What ought to be the general attitude of the public towards specific corporation abuses on the one hand and the general movement of capitalistic organization on the other?

CHAPTER XX.

THE STATE AND LABOR.

81. Labor Is Not Like Capital. As pointed out in the last chapter, capital is only an instrument in production. The government, representing the public, has no interest in capital except as it is employed to the advantage of the community. But labor is not a mere economic tool like capital. Besides being the great human factor in all productive efforts, it constitutes the citizenship of the nation. The great majority of the working population are wage and salary earners, and consequently their condition in life largely determines the quality of citizenship and civilization of the country.

The state, therefore, has a positive interest in promoting the welfare of labor. When machinery becomes worn out or otherwise inefficient, it may without the least compunction be thrown to the junk-heap, but not so with labor. Any deterioration in the character and quality of laborers is a deterioration in the civilization of the community. Improvement in the quality and methods of capital may safely be left to the self-interest of the capitalists, since they alone will pay the penalty for waste and neglect, but this is not true of labor. Laborers often neglect their own economic and social conditions and suffer deterioration in consequence, but when this occurs they themselves pay only a portion of the penalty. The results are visited upon the whole community, in lowering its moral as well as economic standards. From the

point of view of the broadest statesmanship, therefore, the state has something more than a merely protective interest in labor; it has an active, educational, opportunity-creating interest. The state is the guardian of the nation's civilization, and therefore it properly may and should furnish incentives and encouragements to the economic, social and political development of the wage-workers, not because they are wage-workers but because they constitute the bulk of the community. In doing this the state is but doing for itself.

82. Proper Relation of the State to Labor. In order to be really helpful, the action of the state towards labor must be based upon sound principles, determined by the laws of economic and social progress. It cannot permanently help the laborers by doing *for* them, but only by furnishing opportunities and incentives for them to do for themselves. For example, while it is all-important to the progress of society that wages mount up as rapidly as possible, it is entirely beyond the power of the state to fix wages arbitrarily by law, because wages are determined by economic and social forces and can only be affected through these forces. Wages can no more be determined by law than can prices; but the forces, individual, social and political, which operate to determine wages may be greatly influenced by the state's action. As explained elsewhere,* wages are the measure of the laborers' welfare and key to their social status. Though affected by a multitude of forces, they are ultimately determined by the cost or expense of living, as necessitated by the customary social and domestic standards in each different group or community of workers.

These standards are the outcome or resultant of the

*See "Outlines of Social Economics," Chapter XII.

various influences which operate on the laborers' lives and determine the character and extent of their personal and social wants ; as, for instance, whether they will be content to live in a two-room cabin and make physical drudges of their wives and neglect the education of their children, or whether they will insist upon having a five- or six-room house, with some modern appointments, educational opportunities for their children, and some kind of social and political recognition for themselves. If the general environment and influences surrounding them are such that they will be content with the two-room-hut mode of life, then they will require and demand only very small wages ; but where a more expensive standard of living is required, and stimulated by the general environment, the higher wages to maintain this standard become an economic necessity. They become as necessary a part of the cost of production as are the low wages under different conditions.

It is only by operating on the social and educational environment, opportunities for employment, and general influences surrounding the wage-workers, that the state can really promote the rise of wages.

83. Factory Legislation. One of the ways in which the state can act and has acted, in accordance with this principle, is in regulating the conditions and hours of labor in factories. Happily, such legislation is now recognized as beneficent and wise in practically every Christian country. Factory reform began in England nearly a century ago, and has extended to almost every European country, as well as to the larger part of the United States. This regulation by law of the hours of labor and sanitary conditions of factories and workshops is sometimes objected to by well-meaning people as "paternal," coddling interference, but this is a mistake. To

restrict the hours of labor, establish compulsory education for working children, protect the lives and limbs of operatives from dangerous machinery, provide fire-escapes and wholesome sanitary conditions, and compel decent personal treatment of the workers, is not paternalism, it is simply protection, which, as we have seen in an earlier chapter, is very different. It is simply furnishing *opportunity*. Shortening the working day gives the workers opportunity for broader and more varied social intercourse, study and recreation, which tend to cultivate the tastes, broaden the views, sharpen the intellect and stimulate the energy and independence of the individual.

These forces silently and subtly, but irresistibly, operate towards higher and higher standards of living, resulting in demands for higher and higher wage levels. The formation of these demands and adjustment of them with the employers should be undertaken and carried through by the laborers themselves, through their organizations, and their readiness and ability to do this is the best test of their real capacity to make wise use of larger incomes. The state may and should furnish educational and stimulating opportunities for the laborers to broaden and raise their standard of living, but should leave them to adjust for themselves the wage demands naturally arising therefrom.

84. Labor Insurance. The growth of the capitalist and wages system of production has practically separated laborers from their employers, so far as personal relations are concerned, destroying the paternal responsibility of "master" for "servant" which existed down to the middle of the eighteenth century. The result is that, while the laborer can now have something to say about the price of his labor and even strike to increase his wages and otherwise better his conditions, when out of work for

whatever reason, old age or sickness or lack of ability, his income is cut off and nobody seems in the least responsible for his condition. He becomes an object of charity, and the government, if it takes charge of him at all, sends him to an almshouse. Under the factory system the very growth of machine methods makes this dislocation from employment an increased hardship, for old men especially. When they pass a certain age, say fifty-five to sixty-five, they cease to be as alert and efficient as younger men. When a machine loses its efficiency it is reduced to old iron and a new one is put in its place, and when a laborer becomes inefficient he is usually discharged to make room for some one more vigorous, but the laborer cannot be reduced to old iron like a machine. He becomes an enforced idler, reduced to pauperism or a condition closely verging upon it.

This is a great defect in our present industrial system. The discharge of old men is not the result of mere heartlessness, but is very largely prompted by the economic necessity of the case. A capitalist can no more afford to employ inferior or worn-out labor than he can use worn-out machinery. If he lets his sympathy operate to the extent of never discharging anybody for old age, he is seriously handicapped and perhaps forced out of the field entirely, throwing all of his employees, old and young, out of employment. In reality, there are not more than about forty or fifty years of productive efficiency in the average man who attains to any considerable age. These years of work should, under proper economic conditions, support him all his natural life.

During his working years his earnings should be so arranged as to provide for the remaining period. The period of non-employment, after he has reached sixty or sixty-five and lost his capacity for good work, should

be bridged over by some automatic feature introduced into the regular distribution of wealth throughout the community. This can be furnished only by applying the principle of insurance, so that a part of the wealth the laborer produces during his active years is set aside for his support when the time comes that it no longer pays to employ him.

It may be said that ample opportunities already exist for those who desire to insure, but this does not meet the case. The great majority of laborers cannot and, because of the necessary self-denial and lack of incentive, will not carry individual insurance. To reach the laborers the insurance must be general; that is, national at least, and compulsory. The only effective way to accomplish this is to provide that the employers shall regularly pay in an amount equal to a certain percentage on their employees' wages to a national insurance fund, which can be drawn upon when the insurance becomes due. It has been estimated by competent insurance actuaries that payments equal to one per cent. of the wages, beginning when the laborer commences work and continuing until he ceases, at sixty or sixty-five years of age, would create a sufficient fund to furnish him an income equal to two-thirds of his former wages as long as he might live. This, of course, is based on the theory of averages; the excess amount drawn by very old men being offset by the balances left by those who died earlier. There would be no injustice in this, since the fund would be made up, not out of the laborer's wages while he worked, but by the employers, in addition to the wages, and solely to prevent old-age pauperism. The government would act merely as the custodian of such a fund, and the post-office might perhaps be the medium through which the payments were made.

This would not be a burden upon the capitalists; it would simply be equal to a one per cent. universal increase of wages, affecting every employer alike, no matter what his industry nor how many or how few laborers he employed. His competitive relation to all other employers would be the same as before, and therefore his profits would not be affected. The insurance would become an item in the cost of production, the same for all; but its smallness and uniformity would make it entirely imperceptible to those who paid it, after the system was once under way.

This universal extension of insurance to the laborers would supply the missing link in the wages system by making the income of industrious workers continuous from the time of entering the workshop until death. Change of employment would not affect the regular continuation of a man's insurance credit under his new employer; this would be simply a matter of official record-keeping and proper identification of the man.

Extensions of such a system are possible, to provide for insurance against accidents and sickness during the laborer's working years. Germany has an elaborate system of labor insurance, providing against old age, accidents and sickness, and thus far it has proved a success, although some of its semi-paternal features could not well be transferred to a country like the United States. There is no reason, however, why a system organized along the general lines above suggested should not operate successfully in any civilized country, however individualistic its people or democratic its government.

SUGGESTED READING.

In Gunton's "Wealth and Progress," the Introduction and Chapters III. to IX., inclusive, in Part III., on the

economic effect, the feasibility, the historical justification and the present necessity of legislation for shorter hours of labor.

In Brentano's "Relation of Labor to the Law of To-day," Chapters X. and XI., of Book I., discussing the factory system in England, and the early laws against trade unions.

In Cooke-Taylor's "The Factory System and the Factory Acts," Chapters III. to VI., inclusive, tracing the history of factory legislation in England.

On the subject of shorter hours of labor and labor insurance, reference is made to Rae's "Eight Hours for Work," and the Fourth Special Report of the United States Department of Labor, on "Compulsory Insurance in Germany and Other Countries in Europe."

EXTRACTS FROM READINGS.

Economic Justification for Shorter Hours of Labor. "The increased consumption of wealth accompanying a general rise of real wages tends to promote the use of improved machinery—or a greater concentration of capital in production, and in that way therefore cheapens the cost—which always tends to reduce prices, and is the same as a still further increase of real wages. The larger the market the lower the price, is one of the best-established principles in political economy, as well as one of the best-attested facts in economic history. The successful use of improved machinery, which is the only means of permanently reducing the cost of production and lowering prices, is possible only with the use of large capitals and extensive production. It is equally true that the use of large capitals and extensive production is compatible only with a large aggregate consumption of wealth, which *nothing but a high standard of living can sustain.*

“Obviously, therefore, whatever tends to increase the aggregate consumption of wealth per capita necessarily tends to reduce the cost of production and lower prices. This explains why the comforts and luxuries of life are cheaper in England now, with labor at five shillings a day, than they were in the middle ages, with labor at sixpence a day, and why wealth can be produced cheaper in America at two dollars a day than in China at ten cents.”—From Gunton’s “Wealth and Progress,” Chapter III., Part III.

Effects of English Factory Legislation. “The large number of factory laws passed for separate branches of industry occasioned the English government, in 1875, to appoint a royal commission with the task of investigating the factory laws hitherto in force, with reference to their codification into a single law. Two deductions of the report of this commission, made on the 10th of February, 1876, are especially worth mentioning in this place. The one concerns the effects of factory legislation. ‘Numerous former investigations into the condition of children and women employed in the various industries of the country,’ says the report, ‘discovered conditions which powerfully called forth universal compassion and required imperatively the interference of the legislature. In striking contrast to the conditions discovered in those reports is the present condition of those for whose benefit the various factory and workshop laws were passed. Some occupations, in spite of the police regulations for health contained in these laws, still undoubtedly are unhealthy, and in other industries the time of work is still occasionally extended beyond the limits fixed by the laws, which is injurious to the health of those employed in them. But these occurrences, to our delight, are only exceptions. In connection with this we have no cause

to suppose that the legislation, which in so striking a manner has shown itself a benefaction for the laborers employed, has brought any considerable injury to the industries to which it applies. On the contrary, the progress of industry has probably not been checked at all by factory legislation, and there are only a few, even among employers, who now desire the repeal of the chief provisions of these laws, or who dispute the good results effected by them.'"—From Brentano's "Relation of Labor to the Law of To-day," Chapter X., Book I.

QUESTIONS FOR REVIEW OR DEBATE.

1. In what respect is labor essentially different from capital?
2. Why has the state a more positive and active duty towards labor than towards capital?
3. In order to be really helpful, what should be true of the general action of the state towards labor?
4. Can the government fix wages arbitrarily by law? Explain your answer.
5. Explain by what forces wages are determined, and in what way the state may act to promote the increase of wages.
6. What is meant by factory reform? To what extent has factory-reform legislation been enacted during the present century?
7. Explain why the different phases of factory legislation are not paternalism but simply protection of the laborer's opportunities.
8. Why is the evil of old-age idleness a greater hardship under the factory system than it was during the medieval, hand-labor era?
9. What system could be provided to protect laborers against the effects of old-age idleness, accidents, sickness, etc.? Explain how this system could be operated without expense to the laborers and no appreciable burden on employers.

CHAPTER XXI.

THE STATE AND LABOR—*Continued.*

85. Trade Unions. Organization of labor in the form of trade unions is one of the essential features of industrial development under the factory system. The conditions which made corporations necessary for capital also made organizations for joint or group action necessary for laborers.* Under the factory system laborers are employed in groups and their wages, hours and conditions of labor are determined by groups; therefore, it is natural and necessary that they should act for themselves in groups or unions. Employers have been very slow to recognize the naturalness and importance of trade unions, but, with all their mistakes, these organizations are increasing in power and efficiency, and have all the claim for recognition as economic institutions that corporations have. Many of the mistakes of trade unions are due to the persistent refusal of employers and of society to deal with them and give them recognition. They have been treated largely as abnormal growths, and for a long time they were regarded as criminal conspiracies. Having no legal existence, the officers of trade unions could not be held responsible; the treasurer could abscond with the funds and the union had no legal redress. Many of the worst features of labor organizations have come as the result of the attempts to suppress or ostracise them.

* See "Outlines of Social Economics," Chapters XXI. and XXII.

Experience has taught, however, as many large employers now testify, that, with all their defects, trade unions are really helpful organizations, helpful even to capital. Employers are beginning to find that it is easier to deal with laborers who are well organized than with those who are not; that organization tends to develop greater responsibility for personal conduct and quality of work. The real remedy for the defects of labor organizations, therefore, is not opposition, but free recognition of their economic and moral right to exist, and educational effort to guide them to greater wisdom and discretion in their relations to employers, the public, and non-union workers.

86. Injunctions on Strikes. The recent custom of issuing injunctions against strikes, which has given rise to the phrase "government by injunction," is one of the evidences of the reluctance to give trade unions a proper legal status. The power of injunction was originally intended to enable the courts to prevent acts known to be in violation of law or equity. It was first applied to labor organizations in the case of a railroad strike in Michigan in 1893. This road, the Ann Arbor and North Michigan, was in a receiver's hands, and, while the strike was on, employees of other railroads refused to handle freight cars coming from the Ann Arbor line. Some of these other roads traversed several different states, which was considered sufficient to bring this case into the United States court, under the interstate commerce law. The court issued an order compelling the employees of the Lake Shore and Michigan Southern railroad to handle the cars of the Ann Arbor road. Many of the men had quit work before this order was issued, but one resigned afterwards rather than handle the freight, and he was punished for contempt of court, being

fine \$50 and costs. Since then, in numerous cases where strikes have been anticipated, injunctions to prevent the laborers from meeting or acting together have been asked for and issued, on the ground that if the strike were permitted much injury would be done to business and breaches of the peace would occur. This is clearly a violation of the spirit and intent of injunctions. It was never dreamed that this power would be used to prohibit by anticipation the free right of the laborer to leave his employment when he chose. It is the duty of the government, by police or by troops, to suppress riots and protect property, but it is a most dangerous extension of the courts' authority when injunctions are issued forbidding laborers to leave their employments or depriving them of the fundamental rights of free speech, free meeting and free organization, merely on the supposition that they may possibly incite or engage in lawlessness. If this use of injunction were to be recognized and regularly established, it would be easy and natural to go a step farther and permit the issue of injunctions to suppress almost any kind of organization, public meeting or public speech which, in the judgment of the courts, was hostile to the public welfare. This would be clothing the courts with a degree of arbitrary authority that only despotic monarchs now attempt to exercise. Legislation should be enacted defining the limits of the power of injunction, and preventing it from being used to destroy labor organizations by suppressing the ordinary rights of lawful free action and free association of citizens.

87. Rights of Non-Union Workers. On the other hand, trade unions make many and serious mistakes and have many objectionable features. One of these has been and is their attitude towards non-union workers. It is a

too frequent custom among union men, when they are strong enough, to ostracise laborers of their own craft who do not join the union. Generally, union men will refuse to work with non-union men and sometimes will strike unless these men are discharged or compelled to join the union. Frequently grave injustice is done in this way. Serious cases of individual persecution of non-union workers are sometimes brought into court; wherever such cases are discovered they should be severely dealt with by law.

It should be remembered, however, that many of these abuses are but the outcome of the persecution the unions have had to endure. Employers, for half a century, systematically endeavored to make it a social as well as industrial peril to belong to a union; gave all encouragement to non-union men and put every possible obstacle in the way of union workers.

Moreover, when a strike is on, non-union men are easily induced to take the strikers' places, which means to defeat the union's efforts for increase of pay or whatever other improvement they are demanding. In other words, non-union men are used, when possible, to defeat the action of the unions during disputes, and this leads to the refusal of union men to work with non-union men when no dispute is on.

While the unions frequently commit wrongs and injustices, it is a fact always in their favor that their constant object is to improve the working and living conditions of the wage-earning class. All the strikes they inaugurate or agitations they create or other efforts they put forth, costing time and money, are undertaken to increase the pay, reduce the hours or in some other way improve the conditions, not merely of the members of the union, but of their entire class. Non-union workers

usually receive the benefits of the struggle quite as much as union men, because, when wage rates go up, it is almost always by industries or sections, and is not confined simply to the trade unions that made the effort for the increase. To grant the increase to union men only would be, from the employers' standpoint, too striking a recognition of the power of the unions.

88. "Sympathetic" Strikes. Sympathetic strikes are a later feature of trade-union development. They are inaugurated by laborers who have no grievance of their own but want to cooperate with and help secure success for their brethren in some other industry who have a grievance. The sympathetic strike, like other doubtful features of trade-union policy, rose out of the continuous and organized opposition they were obliged to face. For instance, in case of a strike, the employers would (and often do yet) send out agents to induce other laborers to come and take the places of the strikers, frequently offering more wages than the strikers were demanding. When these laborers came they would be approached by the strikers and induced to leave; sometimes the strikers would offer the new men more money to go away and sometimes would threaten them with violence if they remained. The law and the courts came to the aid of the employers, declaring that these attempts to persuade new laborers to leave were coercion and intimidation. In this way many strikes have been rendered powerless and the laborers defeated.

In order to overcome this the unions devised the plan of sympathetic strikes. If they could not be permitted to interview laborers who had been induced to come and take their places, they proposed to retaliate by extending the strike to the whole trade, and if needs be to kindred trades, so that it would become impossible to fill the

vacant places. If laborers had been permitted to have the same right of interviewing and influencing newcomers that the employers exercised in getting them to come, probably sympathetic strikes would never have appeared. Indeed, nearly all the conflicts between labor and capital have been and are fraught with much harsh injustice, most of which is unnecessary and could easily be removed if employers would recognize that organized labor has the same right of existence and free action as organized capital.

89. A Practical Remedy for Strikes. Arbitration between employers and strikers is sometimes resorted to with good results, but compulsory arbitration, clearly, is something which could never be introduced successfully in a country of broad individual rights and liberties like the United States. Much better, as a permanent means of settling disputes between labor and capital, would be an organized system of regular conferences between duly chosen representatives of both parties. Such a system, in embryo at least, was adopted by Colonel Waring in his relations with the employees of the New York street-cleaning department, in 1896 and 1897, with gratifying success.

Committees or boards of conference might be established, in which all the employers and all the organized laborers of any convenient industrial district would have exactly the same number of representatives, each with the same right of discussion and voting power. It should then be understood and agreed that no final step to enforce a demand for increased pay, shorter hours or any other changes would be taken by the laborers against any employer or group of employers until their cause had first been submitted to and discussed by this industrial council, as we might call it; and, on the other hand,

that no reduction of wages or change of working time or other conditions, to which change the laborers objected, should be enforced by any employers until it had been submitted to and discussed by the council. This would afford an opportunity to have the merits of each case intelligently and fairly discussed by the persons most competent to deal with it and most directly interested in it. The cause of the laborers would be represented, not merely by a delegate from the employees in the particular shop concerned, but by the representatives of the whole body of wage-workers in the given district. If the demand were reasonable and proper, it would have the backing and support of all the unions represented. If it were unreasonable, the other unions would naturally hesitate before involving themselves in a costly struggle to support a weak cause. Moreover, the discussion would take place in the presence of the employers' representatives, who could state their situation and point of view at the same time. If any employer were unreasonable, the others would naturally hesitate to enter upon a conflict to sustain him, and would advise him to modify his attitude. In this way the irrational, hot-headed action which is too frequently taken through irritation and misunderstanding on both sides would be largely avoided.

The important feature of such a conference system is not so much that disputes would be discussed by representatives of the general body of laborers on the one hand and of employers on the other, but that each would have to present and argue his case in the presence of the other side, which would correct on the spot any misrepresentation or exaggeration. Such a system would tend to make laborers and employers better acquainted with each other, increase their respect for each other and compel more dignified and judicious conduct by both. In all

probability it would remove the cause of 90 per cent. of all strikes, because the difficulties could be dealt with and adjusted before passion and acrimony had entered the discussion.

It is the history of strikes that for the most part they are finally the result of things said and done in the moments of sudden resentment and heated blood. Once undertaken, pride or perversity prevents either side from receding from its position. It is in substituting some rational, voluntary method of adjusting disputes for these foolish, passionate, unintelligent, expensive and embittering methods that the solution of the trade-union problem must ultimately be found. The sooner employers and the public recognize this fact and encourage its development the better for the industrial peace of the community.

SUGGESTED READING.

In "Principles of Social Economics," Chapter VII., Part IV., on "Combination of Labor."

In Howell's "Conflicts of Capital and Labour," Chapter XIV., on present position and future of trade unions.

For a history of the trade-union movement reference is made to "The History of Trade Unionism," by Sidney and Beatrice Webb.

EXTRACT FROM READINGS.

The Future of Labor. "We hear vague declamations about getting rid of capitalists, abolishing profits and doing away with wages, hiring, contracts of service, etc., and of thereby adding to the welfare of the masses and promoting the prosperity of the people. Labour's Utopia has been described as having reached the acme

of perfection under municipal law, where the people are fed by a state spoon, out of a state platter, doled out by a state official in a state uniform. Where the workers are no longer independent, self-reliant men and women, but parts of a huge state machine, moving mechanically in a state groove, under state regulation. No such dream has actuated the writer of these pages. He has endeavored to promote the liberty of the subject, freedom of association, better wages for working people, extended leisure, a higher standard of living, improved conditions of life and labour, healthier homes, wider culture and nobler aspirations. To these objects his whole life has been devoted. If a nobler, a better and a speedier way can be found, he will not object; but, until it can be demonstrated that the old methods have failed, he relies upon individual exertion, and mutual help by associative effort, to at least ameliorate the condition of the workers. If the advantages gained and the opportunities now offered are properly utilized, the future of labour, if it does not realize the dreams of enthusiasts, will be improved, the workers will be elevated, the country will prosper and happiness will dwell in the land."—From Howell's "Conflicts of Capital and Labour," Chapter XIV.

QUESTIONS FOR REVIEW OR DEBATE.

1. Explain why trade unions are a natural and necessary feature of modern industrial life.
2. What has been one of the principal causes of the mistakes and bad features of trade unions?
3. For what reasons are many employers coming to recognize that labor unions may be and often are actually helpful to capital?
4. What should be the attitude of the public and of employers towards trade-union abuses on the one hand and the general movement of labor organization on the other?

5. What is meant by "government by injunction"?
6. How was the power of injunction first applied in restraint of labor organizations in this country?
7. Give reasons why this use of injunction is an unwarranted extension of the court's authority, and show wherein it might become very dangerous.
8. What steps should be taken to correct this evil?
9. Mention some of the ways in which trade unions inflict injustice upon non-union workers.
10. What has caused this attitude of unions towards non-union workers, and what defence do the unions make therefor?
11. Explain in what way non-union workers share in the benefits gained by the struggles of trade unions.
12. What are sympathetic strikes? Out of what custom on the part of employers has the sympathetic strike grown?
13. What attitude on the part of employers and the public towards the rights of unions would probably remove the occasion for sympathetic strikes?
14. Why is compulsory arbitration an impossible system to establish in the United States?
15. Outline a plan for a joint conference system between labor and capital, which would probably prevent the majority of strikes.
16. What have been some of the immediate causes of most strikes? Explain how this permanent joint-conference system would remove practically all these causes.

CHAPTER XXII.

MUNICIPAL GOVERNMENT.

90. Importance of Municipal Government. The problem of municipal government is one of the most important in American public life. It is important because it directly affects the opportunities and welfare of an increasingly large proportion of the population, grouped under peculiar and highly complex conditions. It is still more important as an immediate problem because it has hitherto been very much neglected. This neglect of municipal problems for state and national politics has permitted, in many of our very large cities at least, a sort of local depotism to arise, based on "patronage and pull." Public men have been so anxious to secure success in state and national politics that the management of affairs in the cities has been left to local bosses, the only result required of them being to deliver a large party vote for the state and national tickets. This has been made relatively easy by the large proportion of ignorant and alien population in large cities.

For these reasons, which do not exist to the same extent in other countries, municipal government seems to be in a more backward state here than in almost any other nation. While we lead the world in many other respects, we lag behind in our handling of municipal problems.

91. National Parties and Local Politics. So much of the trouble has come from the mixing up of local af-

fairs with state and national politics, as just suggested, that an extreme demand is often made that political parties be ignored entirely in municipal campaigns and city officers 'chosen by distinct citizens' movements, independent nominations by petition, etc.

There are instances, and unfortunately they are numerous, where both the leading party organizations have become so corrupt through the power of distributing offices as rewards for party services, letting the city's contracts to favorites, accepting bribes from lawbreakers not to enforce the law, and secretly working or "trading" with each other to control nominations and so keep themselves in power, that the people who want reform can get it only through independent movements, uniting the better elements of all parties against the "machines." Such conditions are especially common in the very large cities, but they do not justify the general conclusion that political parties have no proper place in municipal affairs. Organization of some kind is absolutely necessary to conduct campaigns and present issues to the people. A citizens' independent movement in municipal politics is not essentially different from a political party; it is a definite organization for political purposes, only it contains and is controlled by a better and more public-spirited group of citizens for the time being. If it is a merely temporary association it is generally too weak to contend successfully with the regular party machines, while if it becomes permanent it is then a political party itself and may become subject to the same kind of influences that control the older organizations.

92. Reform in Methods of Nomination. Therefore, the real problem is not one of organization or no organization, but of the kind and quality of organizations that can best be made to represent and carry out the real

wishes of the people. A political party is simply an organization of citizens, and, if proper means were provided in its machinery for securing free expression of the popular will, it would be just as easy for the people to act through these organizations in nominating candidates and discussing issues as to go to the effort and expense of getting up independent movements, with very doubtful chances of success. There are always a large number of good citizens who, for various reasons, will remain in the old organizations under almost any circumstances and refuse to join an independent movement; which means that such a movement always divides the friends of good government and greatly imperils the chances of success. Under existing conditions this may often be inevitable, but, if our methods of nominating candidates were so revised and protected that citizens could be sure of fair play and a free voice in the regular party organizations, no such perilous divisions would ever be necessary. It is quite possible to accomplish this by the methods suggested in Section 28, Chapter VI., on "Primary Reform."

93. Provision of Educational Opportunities. Passing out of the political field into that of the social problems of our cities, all practical reform efforts, however varied, should be directed towards improving the conditions which directly affect the lives and influence the intelligence, morality and general character of the citizens. First among the practical efforts in this direction is education, in its broadest sense. To furnish adequate school facilities of the very best quality should be a prime duty of municipal government. No excuse about taxation should prevent the expenditures necessary to supply, not merely seating room for all children of school age in our cities, but seating room under the most attractive

and inspiring conditions. Furthermore, the public-school system of every city should extend down and include the kindergarten. The public kindergarten should become as essential a part of our educational system as the grammar school. Its influence is in many respects more far-reaching than that of the grammar school. It extends back into the homes in a way that the grammar school never can. It brings the mothers in touch with its inspiring influences, and thus, often, does quite as much for them as for the children, particularly among the very poor. It makes every child a messenger of cleanliness and brightness to the home.

94. Public Improvements as Educational Influences. In reality, the influences thrown around and introduced into the home are more important than any schoolroom instruction. The home and its surroundings are the greatest and most powerful educational factor in the world, molding people for good or evil more effectively than anything else with which they come in contact. The kindergarten is important chiefly because it directly touches the home, and for the same reason a great many other lines of wholesome public services and improvements ought to be prominent features of wise municipal government. Well-kept streets, public parks, public gardens, free libraries and museums, public baths and rigid sanitary regulations—all are of this order. The condition of the streets and near-by surroundings of the home has much to do with the cleanliness, order and brightness, or otherwise, inside the home. There is another vast field for municipal activity in the protection of the home through tenement-house and sweatshop reform, and this will be further discussed in the next chapter.

SUGGESTED READING.

In Shaw's "Municipal Government in Great Britain," Chapters I., III., VIII. and IX., treating respectively of "The Growth and Problems of Modern Cities," "The British System in Operation," "The Government of London" and "Metropolitan Tasks and Problems."

In Devlin's "Municipal Reform in the United States," Chapters I., II., IV., VI. and VIII., on "Reform Efforts," "American Conditions," "Municipal and State Politics," "Cost of City Government" and "The Official, the Press, and the People."

In "Man and the State" (lectures before the Brooklyn Ethical Association), lecture by Lewis G. Janes, on "The Problem of City Government."

In Maltbie's "Municipal Functions," Chapters I. and II., on "The Historic City" and "The City of To-day."

In Wright's "Outline of Practical Sociology," Chapter VIII., on "Urban and Rural Population."

In "A Municipal Program" (report to the National Municipal League, 1899), Chapter on "The City in the United States—the Proper Scope of Its Activities," by Albert Shaw.

EXTRACTS FROM READINGS.

The Root of Bad Municipal Government. "The most serious evil to overcome is an indifference on the part of the general public. No laws, however good, can be substituted for good citizenship, and it is plain that the people are much to blame for the worst features of our city government, and will be so long as our problem remains, 'the efforts of a great, prosperous and Christian community to protect its religion and morality and property from ruin at the hands of a government of its own

choice.' [E. L. Godkin.] Whenever a community earnestly insists upon having its government administered on principles of right, morality and economy it will be successful. Police protection will be withdrawn from gambling dens and houses of prostitution; the saloon will not have advantages over every other business; careful and painstaking work will be the rule in city service and jobbery and fraud will cease. The public official has great respect for the desires of the people, but it must not be an half-hearted demand of a few, but the intelligent, sincere, healthy opinion of the great masses of the people."—From Devlin's "Municipal Reform in the United States," Chapter VIII.

Separation of National and City Politics. "We shall always have a politics of the municipality as well as of the nation, and we shall have parties in our municipal contests; but the diverse issues of national and city policy should be kept entirely distinct. With this end in view, city elections should be held at a different date from state and national elections. The obvious objection to this proposition is the cost of holding an additional election, but these need not occur oftener than biennially, and the result, I think, would be worth all it cost. This complete divorce of municipal from national politics would do much to break up the disgraceful deals and wholesale trading of votes between political bosses and machines which have so often disgraced our elections. While we must continue, perforce, to use the machinery of national politics in our city elections, the salvation of our municipalities lies mainly with the independent voter. All which has thus far been gained in this country for pure government in our cities has been gained by the action of the independent voter. To cultivate the spirit of independence in men of all parties—to induce them to work

outside the machines, carefully avoiding third-party affiliations, for common patriotic ends, thus finally forcing the machines to accept the policy of reform, and ultimately to commit *felo de se* for lack of the spoils of office—should be the endeavor of all the earnest friends of municipal progress.”—From lecture by Lewis G. Janes, in “Man and the State.”

QUESTIONS FOR REVIEW OR DEBATE.

1. Why is municipal government in the United States in a more backward condition than in almost any other modern country?
2. Under what conditions is it practically useless to attempt municipal reforms through the agency of the regular political organizations or party “machines”?
3. Mention some of the disadvantages of the third-party independent movements which are sometimes inevitable in municipal affairs.
4. Describe some of the methods by which, under the present system, the local party “bosses” can control the nomination of candidates for public office and keep themselves in power.
5. What reform in the methods of nominating candidates would abolish this power of the boss and give the people a free voice?
6. Why would this reform remove the necessity for third-party independent movements?
7. What general principles should govern municipal policy in dealing with the social problems of our cities?
8. What should be the attitude of wise municipal government towards public education?
9. For what reasons should the kindergarten be embodied in the educational systems of our cities?
10. Mention some of the other lines of public expenditures that ought to be made because of the wholesome educational influences they furnish.

CHAPTER XXIII.

MUNICIPAL GOVERNMENT—*Continued.*

95. Housing the Poor. If the people live in miserable homes they cannot be good citizens. Character is made chiefly in the home and its immediate environment. Degrade the home and you cannot lift the people, but enlarge, beautify and refine the home and nothing can long degrade the people. The problem of housing the poor, therefore, which is practically the tenement-house problem, is one of vital importance. Some progress has been made in the improvement of tenements in our large cities and construction of better ones here and there, but the evil is still gigantic. What is imperatively needed is much more radical power to boards of health or other proper officials to condemn unwholesome tenements entirely, more radical laws governing the air-space, sanitary arrangements and safety provisions of all new buildings, and much stricter enforcement of such laws.

It is frequently urged that the way to abolish the tenement-house evil is to provide conditions by which the poor can own their own homes. This, of course, means that the people in question would have to move out into the suburban districts, which is a wholesome tendency and one that is already under way and rapidly increasing; but, in the great majority of cases, for poor people to attempt to build their own homes is a mistake. If they can build decent homes and keep them in proper condition it is a commendable thing to undertake, but people

of very meager incomes, laborers who occupy two or three rooms in city tenements, cannot afford to build anything but poor houses. Moreover, having become the owners of taxable property, they at once have an interest in resisting public expenditure for local improvements, because they have to pay the taxes. If, for example, it could be arranged so that the tenements in New York city were owned by those who lived in them, it would probably constitute an almost impassable barrier to tenement-house improvement.

As it is, the sanitary conditions in modern improved tenement houses are actually superior to those of the middle class who own their own houses. The reason for this is not difficult to understand. Tenement houses are built by capitalists as investments. The capitalist, before he is permitted to build, must submit the plans to the buildings department and have them approved by the board of health. The sentiment of the community—both of those who are going to live in these houses and those who are not—is all in favor of making the capitalist use the best materials, furnish the largest amount of ventilation and light, and the most modern methods of plumbing and sanitation. In other words, both the law and the moral force of the community are brought to bear upon the capitalist to insure that every new building that goes up shall contain the best that sanitary science has developed. This pressure has not prevented all construction of bad tenements, to be sure, but it is resulting in constant improvement, and all the forces that can be brought to bear at all are, by the very fact of self-interest, directed towards the desired end. To the extent that it succeeds, the poorest people get the best improvements, which they would never voluntarily put into their own houses because of the large expense.

96. The Sweatshop and Its Removal. Sweatshops are a feature of city life, on the industrial side, which needs to be completely rooted out by drastic measures. Mild measures have been tried over and over again, with only temporary results or none at all. The sweatshop in American cities is not a product of American conditions; it is a survival of the old hand-labor era of production and is brought here from the poorest sections of Europe. It will be difficult to eradicate so long as free immigration of very poor European laborers is permitted. These people simply re-establish here in our cities the working and living conditions to which they have been accustomed at home, and it is a question, therefore, whether they materially better their lot by the transfer. At any rate, if they were restricted from coming here, it would compel European governments to attend more thoroughly and carefully to the social problems created by their own poor right at home.

If the immigration of prospective "sweaters" is rigidly restricted or entirely prohibited, it will be much easier to stamp out the sweatshop evil that we already have with us. Boston has made considerable headway in this direction, and New York has been experimenting with several methods, with but indifferent success. The plan of requiring "sweaters" to obtain licenses from a board of health or board of factory inspection before they are permitted to take work into their homes does not reach the root of the difficulty. The law should deal, not with the unfortunate workers in the sweatshops, but with the landlords of the buildings. It should define just what kinds of home manufacturing, overcrowding of tenants, etc., constitute a sweatshop, and then make the landlord subject to heavy fines, or forfeiture of rent, if he permits one to exist in his building. This would make the landlord vir-

tually a policeman on guard against sweatshops, and would compel the employers or contractors who give out the work to take it to regular workshops, where all such labor ought to be performed. Since there would be just as much work to be done as before, just as many workers would be needed, only they would be transferred from the homes to the workshops. The carrying on of petty manufacture, chiefly of clothing, right in the same rooms in which the workers eat, sleep and live is the characteristic feature of the sweatshop, and nothing can remedy the evil which does not break up this unnatural combination. In other words, no remedy will solve the sweatshop problem which does not absolutely separate the home from the workshop.

97. Social Settlements. During the last ten or fifteen years the "social settlement" movement has made great headway in most of our large cities. The idea originated in England and takes many different forms, but the distinctive purpose of the movement is to establish centers of wholesome, civilizing, educative and inspiring influence right in the heart of the "slum" districts. Men and women interested in this work, including many college students as a rule, take up temporary residence in the settlement building and help in the carrying on of a wide variety of activities—study clubs, debating societies, lectures, free library, kindergartens, social gatherings, savings funds, sewing and cooking classes, sometimes manual training, and the like. These institutions are of very great usefulness. Every such opportunity for people to meet for social intercourse, recreation, entertainment and study is an incentive to progress and fills a real need which otherwise is supplied only by the saloon. The people who come to the settlements are improved intellectually, socially and morally. Besides increasing the

information and brightening the mind, this opportunity for association under wholesome and agreeable conditions, and contact with people of education and refinement, has a broadening, uplifting influence upon individual character. Every center affording these opportunities is helping create a superior quality of citizenship.

Social settlements, variously known by this name and as university settlements, college settlements, church settlements, and the like, should be far more numerous than they are. It might even be wise policy for the government of every large city to encourage such institutions by duplicating the contributions of private individuals to found and support them.

98. Public and Private Charity. Charity is a method of making up for some of the defects of social and individual life, the necessity for which should disappear as rapidly as possible. It is the opposite of social settlements, it is the opposite of all movements for improved housing and abolition of sweatshops. It is the most direct and dangerous form of paternalism, doing *for* the individual outright, and in its very essence is degrading and stultifying. Nothing more surely destroys the feeling of independence, manhood and self-respecting citizenship. Charity is a relic of slavery and barbarism; it cannot be arbitrarily abolished, but it should be discouraged, looked upon as an evil, and public policy everywhere be shaped to remove its necessity.

As before pointed out, a properly devised system of labor insurance would probably do more to abolish the need of charity than any other one thing that could be suggested. It would provide the means of perpetual income for all thrifty, industrious laborers, tiding them over the periods of sickness, enforced idleness and old age, which are the points at which they now most fre-

quently drop into the charity-receiving group. With the misfortunes of the thrifty and industrious thus provided for, almsgiving or other forms of charitable relief for any other kinds of people should be made as difficult as possible. Such relief should be administered publicly by the government, and street-begging should be strictly prohibited. If this should increase the burden of taxation, it would help turn the interest and attention of wealthy taxpayers towards measures tending to remove the causes of poverty; whereas now, too frequently, they seem to feel that their duty to the poor is fully discharged if they make large contributions to some charitable organization. Such organizations can at best afford only temporary relief, and, by standing ready all the time to distribute supplies, quietly and with no publicity, where need can be shown, they come to be relied upon as permanent sources of help, and all sorts of devices are invented, in numerous cases, to make a show of poverty. Thus, while working with the best of intentions and doubtless accomplishing much good in many specific cases, the very existence and activity of large charitable organizations unavoidably helps to perpetuate the evil they seek to modify. The money and public effort now expended in this direction would be much more effective in removing the causes of poverty, and hence the necessity for charity, if devoted to the rapid promotion of a labor-insurance system, encouragement of social settlements, and far more thorough, vigorous and radical measures for tenement-house and sweatshop reform.

SUGGESTED READING.

In Woods' "The City Wilderness: A Settlement Study, by Residents and Associates of the South End [Boston] House," Chapters VI. to X., inclusive, on "The Roots

of Political Power," "Criminal Tendencies," "Amusements," "The Church and the People" and "Strongholds of Education." The entire book is a valuable study of settlement work.

The whole of Henderson's "Social Settlements," which gives the theory of the settlement movement, its history and results, in England and the United States.

In Gladden's "Social Facts and Forces," Chapter V., on "The City."

In Strong's "The New Era," Chapter IX., on "The Problem of the City."

In Wright's "Outline of Practical Sociology," Sections 80 to 84, inclusive, in Chapter IX., on "Special Problems of City Life."

For an exhaustive analysis and description of the conditions of the poorer classes in English cities, reference may be made to the eight volumes of Charles Booth's "Life and Labour of the People."

EXTRACTS FROM READINGS.

What the Social Settlement Is and Does. "The settlement is not an industrial enterprise, and it does not compete with employers or with trade unions. It is not a school, nor a mercantile establishment, nor a relief agency, nor a church. It is nearly allied to a household or a colony of households. The members of this community subject themselves to the conditions of their neighborhood; they smell vile odors and look upon disgusting spectacles; they buy food of the same merchants who serve their neighbors; they listen to the jargon of the multitude; they enter into the aspirations of the leaders and join them in plans of betterment; they aid families, societies, schools, churches to realize personal-

ity and to multiply the means of virtue and rational happiness. . . .

"Neglected districts never raise themselves without help from above. There is as much demand for social missionaries as in any previous age. Persons without families naturally can change residence with less difficulty than others whose ways are set. Just because the average citizen lacks altruism and has egoism in excess the social balance must be held by an excess of devotion on the part of a few. And, further, the example is likely to spread. There are many compensations. Persons are not burned by a flame they are trying to extinguish. Purity does not suffer taint from those it would redeem. The cold culture that can know of wrong and pain and not seek to help is sham culture. It is the slum on one side and haughty indifference and cynical doubt of human salvability on the other which are monstrous. Bad sanitation and dirty streets are not necessary. Good schools can be had anywhere. Beauty will displace ugliness when there is a demand for it."—From Henderson's "Social Settlements," Part II.

The Slums and How to Abolish Them. "What shall the city do with the slums? It must abolish them utterly. 'The abolition of the slums and the destruction of their virus,' says Dr. Albert Shaw, 'are as feasible as the drainage of a swamp and the total dissipation of its miasmas.' As feasible, let me say, and as imperative. Power to do a thing like this is the obligation to do it. The fact that the disease and the pestilence which these conditions breed are moral as well as physical in no wise lessens our responsibility for getting rid of them. There are a good many quarters in many of our modern cities where pauperism and crime are produced as inevitably as carrion is produced when an unburied carcass is exposed to the

summer sun. Men and women cannot live upright, self-respecting, decent lives in such places. The social life that is lived there must be rife with moral miasm; the city should have precisely the same right to abate such a curse that it has to drain a morass. Individuals ought to have no property right in premises which breed death and engender vice. When they have proved that they lack the power to keep their property from falling into such conditions, their property must be summarily taken away from them. The existence of such plague spots, here and there, in our American cities, is proof that the municipality is fatally derelict in its duty. . . .

"Power to abolish slums is not unknown to modern cities. All the great British towns have already thoroughly purged large areas of squalor and misery. When the proper authorities report a certain district as a nuisance, the London county council at once proceeds to condemn the whole of it. Parliament gives the council this power. Proprietors are paid, of course, for their property, but no more than it is actually worth in the conditions in which they have permitted it to fall. Then the city proceeds to raze these rookeries to the earth, laying out the districts anew, widening the streets and the air spaces and erecting model tenements, of which it becomes the owner and landlord. Quite a number of the people of London are now living in health and decency in houses owned and rented by the city, which stand upon ground where not long ago the deadliest slums were festering. One needs only to pass from some of the existing slums of that metropolis (for they are not yet all abolished) to the districts regenerated, observing the marvelously changed conditions and the difference in the very physique and expression of the people inhabiting the different sections, to be made aware of how

much it is possible for a great and wisely governed municipality to do in working out its own salvation."—From Gladden's "Social Facts and Forces," Chapter V.

QUESTIONS FOR REVIEW OR DEBATE.

1. Mention some of the reasons why the proper housing of the poor is so important a concern of the public?
2. What important steps are necessary to secure radical improvement in tenement-house construction?
3. Mention some of the disadvantages of having very poor people own their own houses.
4. For what reason is it easier to secure and enforce proper sanitary conditions, etc., in tenement houses when constructed by capitalists and rented to tenants than when owned by the tenants?
5. What are the sweatshops? Are they a product of American conditions, and, if not, how did they grow up in our cities?
6. What relation has free immigration to the sweatshop problem, and why would the government be justified in restricting immigration?
7. To whom should the laws for suppression of sweatshops be made to apply, and why?
8. What characteristic feature of the sweatshop must be destroyed in order really to cure the evil?
9. What are social settlements? Mention some of the activities they carry on.
10. Explain some of the reasons why these settlements are such important agencies in the making of good citizenship. What might be a wise policy of municipal government towards them?
11. What is the general influence of charity, and how should public policy be directed with reference to it?
12. Mention some of the reforms which would go a long way towards removing the necessity for charity.
13. Through what agency should such direct distribution of alms as is absolutely necessary be conducted? What wholesome effect might this have on wealthy taxpayers?
14. Explain how the existence of large charitable organizations often serves to perpetuate the evils they seek to lessen.

CHAPTER XXIV.

MUNICIPAL GOVERNMENT—*Continued.*

99. Public Management of Public Enterprises. It is undoubtedly true that municipal government, from its direct and close touch with the people, is better adapted for the ownership and management of certain kinds of public service than either a state or the national government. Water supply may very properly be a matter of public ownership, because the feature of prime importance in water supply is not economy in furnishing it but the abundance and purity of the water, whatever it costs; and this requires ample government authority to protect watersheds and distribute water uniformly into every part of the city.

Education also is properly a matter of public control, because here again the important thing is not its cheapness but its uniformity and wide extent. Even though it cost twice as much to educate children in public schools as in private, it would still be good public policy to have education furnished by the government, because in that way proper standards of instruction can be enforced in all the schools, and the attendance of children made compulsory. Good education is cheap at almost any price, and poor education is dear as a free gift. Economy in education comes not in the mere saving of taxes, but in saving and expanding the character of the citizens.

For much the same reasons, such enterprises and services as the care of the streets, providing proper sewerage

and street lighting, and maintaining public parks, libraries and baths are within the range of efficient government management and, to give the best results, require a certain degree of authority and uniformity which the municipality can furnish better than individuals.

There is a line, however, in the management of industrial enterprises, beyond which municipal government cannot go without involving more economic loss and political corruption than any of the possible good results of government control will justify. Public discussion as to just where this line should be drawn is now very active. It is being urged in many quarters that street railroads, gas and electric light plants, should be owned and operated by the city government, and the emphasis is placed especially on street railroads.

Electricity and the cable have practically superseded horse-cars in all important cities, and the capital now invested in electric transportation is enormous. A street railway uses the public highways, and therefore, in addition to having a state charter as a corporation, requires a special franchise from the municipality; and every defect in its management brings forth the suggestion that the city should retain the franchise and operate the railroad itself. Of course, if this theory were fundamentally sound it would apply to any industry whenever mistakes were made in the management, and the government would soon be owning and conducting practically all the business of the community.

The ownership and operation of street railroads is a practical problem, however, and the question to be decided is whether the best results to the public can be accomplished by the government owning and operating the road or by leaving it to private enterprise under proper government regulation. The public's great interest in

all productive enterprises of this character is that they shall render the best service at the least expense. This involves two things: first, the most efficient administration of the business; second, the best distribution of the advantages of such management to the public.

100. The Street-Railway Problem. First, then, is government ownership and management likely to be more efficient and produce greater results for less outlay than private enterprise? Thus far, experience is against the assumption that public management is economically superior. It is contrary to the nature of the case that government management of a strictly economic enterprise should be superior to private enterprise. Under private enterprise, to secure profits is the great object, and therefore the strongest incentive constantly exists to increase profits by improved machinery and organization. Under government ownership and control, this profit motive is absent. Public disgrace and removal from office may be a sufficient force to prevent dishonesty and inspire ordinary efficiency and integrity, but there is no reason to suppose that these penalties would ever be inflicted except in the most extreme cases, so long as corrupt political influences continue to exercise any important influence in municipal government. Moreover, with only penalties instead of rewards as the incentives to good management, the spirit of risk-taking and experimentation is deadened, because a mistake might bring censure and disgrace; whereas, under conditions where the gain from an invention goes to the manager or owner of the business, he will take the risk in proportion to his knowledge and confidence in its success, and is willing to bear the financial loss if it fails.

Moreover, if an institution like a street railway is operated by private enterprise, the public has every interest and incentive to bring the strongest possible pressure to

bear upon it to secure good service. If the corporation pursues the short-sighted policy of trying to "run the road for all it is worth," regardless of public convenience, the public has everything to gain and nothing to lose by directing the whole power of its criticism and of the law to enforce better service; whereas, if the community itself owned and operated the enterprise, and had to pay for any expensive improvements or extensions of service, by taxation, the pressure in this direction would be largely neutralized. The taxpayers would become opponents instead of promoters of such improvements.

Another fact which, in the nature of things, tends to make private enterprise more efficient is this: Under city operation of street railways the managers would necessarily, directly or indirectly, be selected by popular vote. It is in the very nature of popular choice that it cannot, except almost by accident, select the best. Public approval must be the approval of the majority, and the majority is necessarily only of average quality; it cannot represent the very best; it is always a compromise. In the conduct of industry, therefore, as in the conduct of political affairs, the officials would be sure to be considerably inferior to the best. They would be chosen partly if not fully as much for their political as for their economic qualifications. Moreover, in most public positions the salary is too low to command the highest ability. Under private enterprise the opposite obtains; the general rule is that efficiency in service is the basis of promotion. Men are chosen because of their abilities, and competition will not permit inferior material to be permanently retained. The law of natural selection operates; whereas under government control the law of political or "popularity" selection is the rule.

101. The Public's Interest in Franchises. While it

is probably much better, for the present at least, that street railways should be owned and operated by private enterprise, the problem of how to protect the public's interests and secure a fair return for the privileges it grants is really serious and requires careful attention. Corporations which operate under municipal franchises have practically a monopoly. On the other hand, under all normal conditions, private enterprise is subject to competition, and this is the great ever-present force that distributes a share of the profits to the public through the lowering of prices. But, where municipal franchises are granted, competition is practically excluded by the government. It is clear, therefore, that when the natural profit-distributing force is suspended some other profit-distributing force should be substituted. When the government substitutes itself for competition it ought to do the work of competition and provide some way by which the public, which grants the franchise for exclusive use of the streets by railroad companies, shall receive its proper share of the earnings.

How can this be accomplished without impairing the efficiency of the enterprise? No arbitrary method, such as limiting by law the rate of dividend or taxing away the net profits, would answer the purpose. It would immediately discourage all exceptional energy and experimentation, because under such a system the capitalists would lose by their failures and not gain by their successes. No method should be adopted by which the reward for excellence is destroyed.

The exceptional advantage enjoyed by a street-railway corporation comes from its franchise, and it is in the granting and use of the franchise that the public's share in the profits of the enterprise should be secured. The most effective way of securing to the public its equitable

share of the earnings is to sell the franchise to the corporation that will give the most for it and comply with certain prescribed conditions of service in using it.

First. The franchise should be granted only for a limited time; the maximum might be, say, fifty years.

Second. The price given for the franchise may be in the form of an outright money purchase, or a percentage of the gross receipts, or a fixed amount per year, or a definite reduction of fares. The chief interest of the public is not so much in the amount of the money rental as in the kind of service rendered. The most equitable rule would seem to be that the franchise should be granted to whatever corporation makes the most favorable offer as to reduction of fares and visible improvement of the service, according as the gross income of the enterprise increases, and perhaps also offers the largest percentage of gross receipts as a rental to the city for the franchise.

Third. The franchise should be regarded and assessed as real estate for the purpose of municipal taxation. Its value should be estimated according to the method explained in Chapter XIII.

By these methods the public would receive a constantly increasing benefit from its franchises, in proportion as they were also profitable to the corporations using them. What is still more important, the public would benefit in good service, cheap fares and direct income to the city treasury without destroying the profit-making opportunity of private enterprise or the incentive for economic improvement.

SUGGESTED READING.

In Wright's "Outline of Practical Sociology," Sections 73 to 79, inclusive, in Chapter IX., on "Special Problems of City Life."

In "Municipal Monopolies," by E. W. Bemis and others, Chapter V., on "Municipal Franchises in New York," by Max West.

In "A Municipal Program" (report to the National Municipal League), Chapter on "Municipal Franchises," by Charles Richardson.

In Maltbie's "Municipal Functions," Chapters IX. and X., on "Causes of Increased Municipal Activity" and "Future City Functions."

EXTRACTS FROM READINGS.

Municipal Ownership in England. "The question has been discussed recently in a most enlightened way by a special committee appointed by the governor of Massachusetts to consider the relations between street-railway companies and municipal corporations. The report of this committee, drawn by Charles Francis Adams and published in February, 1898, . . . refers to the experience of Great Britain as follows:

"So far as development, activity and material and scientific appliances and equipment are concerned, apart from permanent way and track surface, the American street railway service is so far in advance of any to be found in Great Britain as not to admit of a comparison. Without exaggeration, it may be said that, while the street surfacing and merging of track with pavement are there far in advance of what we ordinarily find in America, all the other appliances and accommodations are either antiquated and positively bad or recently taken from this side of the Atlantic and installed by American companies. In other words, in the field of scientific apparatus and mechanical development America has experimented at immense cost, as our street railway capitalization shows, while Europe has patiently waited and is

to-day rapidly and quietly appropriating the results for which we have paid. . . . As yet no attempt at the municipalization of street railways has been made in any country on a sufficiently large scale and for a long enough time to be of real significance. Glasgow and Leeds, for instance, are the two European instances more frequently referred to. From the statements often met with in the press and the assertions heard in discussion, it might well be assumed that the experiments made in these cities amounted to an indisputable and established success; whereas, in point of fact, such is not the case. So far from being a demonstrated success, it may, on the contrary, be confidently asserted that nowhere as yet has the experiment of municipalization of street railways been worked out to any logical and ultimate results whatever, nor can it be so worked out for at least a score of years to come. Even then, political habits, social traditions and material and economical conditions vary so greatly and enter to so large an extent into the problem that it will not be safe to infer that what may have proved safe and practicable in one community is either practicable or safe in another. At the present time the municipalization of the street railways is not accepted as by any means indisputably desirable in Great Britain, while in Germany it is regarded unfavorably. This last fact is the more noteworthy, as Germany has been the field in which state ownership and management of steam railroads has been developed to the fullest extent, and with results pronounced to be unquestionable as well as most satisfactory.'"—From Wright's "Outline of Practical Sociology," Chapter IX.

Proper Conditions of Franchise Grants. "The committee is also convinced that it has been demonstrated by abundant experience that in the interest of the public,

when a city grants a franchise to a private corporation, association or individual :

“The term of such grant should be limited to a definite period not exceeding twenty-one years ;

“In addition to any other form of compensation the grantee should pay the city a percentage of the gross receipts from the exercise of the franchise ;

“At the end of the period the plant of the grantee should become the property of the city if the latter should so desire, either without further compensation than the original grant, or, if additional compensation be paid, it should not in any way include or be based upon any valuation of or allowance for the franchise itself, which at the termination of the grant should *ipso facto* revert to the public ;

“Every grant of a franchise should contain ample provisions, enforceable by forfeiture of the grant, or otherwise, to secure efficient public service at reasonable rates ;

“Every grantee should be obliged to render to the city complete accounts of its financial condition, including its receipts from all sources and its expenditures for all purposes, such accounts to be public records ;

“The books and accounts of the grantee should be at all reasonable times open to the examination of the city’s fiscal officer or his representatives.”—From “A Municipal Program,” Chapter on “Municipal Franchises,” by Charles Richardson.

QUESTIONS FOR REVIEW OR DEBATE.

1. Mention some of the public enterprises that may well be carried on by municipal governments, and explain the reasons why.
2. What general rule should determine whether an enterprise should be owned and operated by the municipal government or by private enterprise under public regulation?

3. What incentives to improvement of service would be destroyed by public ownership and management of street railways?
4. Explain why the provision of penalties for bad management by public officials would not secure as good results as the incentive of profits under private management.
5. Why would the public demand and pressure for improvement be stronger under private than under municipal ownership?
6. Why would popular choice of officials to manage enterprises like street railroads secure less capable men than the method of natural selection under private management?
7. If the municipal government ought not as yet to own and operate street railroads, etc., what important duty has it with respect to these enterprises?
8. Why is it necessary for the municipal government to secure by law the public's share in the profits and advantages of street railroads, while it does not need to do so with respect to other kinds of industries?
9. Mention two mistaken methods proposed for securing the public its share in the profits of these semi-public corporations, and explain why these methods would be disastrous.
10. In disposing of its franchises, what would probably be the most effective way of securing to the public its full share of the benefits from their use?
11. How should public franchises be treated for purposes of taxation, and how should their value be estimated?
12. Why would these methods of securing the public's rights in its franchises not serve to discourage private enterprise or destroy the incentive for improvements?

APPENDIX

INFORMATION CONCERNING BOOKS REFERRED TO IN THE TEXT *

- BASTABLE. "Theory of International Trade." Macmillan Co., New York. \$1.25.
- BASTIAT. "Sophisms of Protection." G. P. Putnam's Sons, New York. \$1.
- BOOTH, CHARLES. "Life and Labour of the People." Macmillan Co., New York. 9 vols. \$3 per vol.
- BRENTANO, LUJO. "Relation of Labor to the Law of To-Day." G. P. Putnam's Sons, New York. \$1.75.
- BRYCE, JAMES. "The American Commonwealth." Macmillan Co., New York. \$1.75.
- BURGESS, J. W. "Political Science and Constitutional Law." Ginn & Co., Boston. 2 vols. \$5.
- BUTLER, NICHOLAS MURRAY. "The Education of Public Opinion." Pamphlet published by University of Michigan, Ann Arbor, Mich.
- CHICAGO CONFERENCE ON TRUSTS. Report published by the Civic Federation, Chicago.
- CONANT, C. A. "History of Modern Banks of Issue." G. P. Putnam's Sons, New York. \$3.
- COOKE-TAYLOR, R. W. "The Factory System and the Factory Acts." Chas. Scribner's Sons, New York. \$1.
- CURTIS, GEO. WM. "Orations and Addresses." Harper & Bros., New York. 3 vols. \$3.50 per vol.
- CURTIS, WM. E. "The United States and Foreign Powers." Chas. Scribner's Sons, New York. \$1.25.

* Any of these books may be ordered, if preferred, from the Institute of Social Economics, Union Square, New York.

- DELMAR, ALEX. "History of Monetary Systems." E. Wilson, London. \$5.
- DEVLIN, T. C. "Municipal Reform in the United States." G. P. Putnam's Sons, New York. \$1.
- EATON, DORMAN B. "The Spoils System." G. P. Putnam's Sons, New York. 50 cents.
- "Civil Service in Great Britain." (Harper's.) 25 cents.
- GIBBINS, H. DEB. "Industry in England." Chas. Scribner's Sons, New York. \$2.50.
- GIDDINGS, F. H. "Democracy and Empire." Macmillan Co., New York. \$2.50.
- GIFFEN, ROBERT. "Case Against Bimetallism." Macmillan Co., New York. \$2.
- GLADDEN, WASHINGTON. "Social Facts and Forces." G. P. Putnam's Sons, New York. \$1.25.
- GNEIST, R. VON. "History of the English Parliament." G. P. Putnam's Sons, New York. \$3.
- GOODNOW, F. J. "Politics and Administration." Macmillan Co., New York. \$1.50.
- GUIZOT, F. P. G. "History of Civilization in Europe." Appleton & Co., New York. \$1.50.
- GUNTON, GEORGE. "Principles of Social Economics." G. P. Putnam's Sons, New York. \$1.75.
- "Wealth and Progress." Appleton & Co., New York. \$1.
- "Taxation of Franchises." Lecture published by Institute of Social Economics, New York. 5 cents.
- "Trusts and the Public." Appleton & Co., New York. \$1.
- HADLEY, A. T. "Economics." G. P. Putnam's Sons, New York. \$2.50.
- "Railroad Transportation: Its History and Its Laws." (Putnam's.) \$1.50.
- HALLAM, HENRY. "Europe During the Middle Ages." Chas. Scribner's Sons, New York. 3 vols. \$4.80.
- HANDY, W. M. "Banking Systems of the World." C. H. Kerr & Co., Chicago. \$1.
- HENDERSON, C. R. "Social Settlements." Lentilhon & Co., New York. 50 cents.
- HOBSON, J. A. "Evolution of Modern Capitalism." Chas. Scribner's Sons, New York. \$1.50.
- HOWELL, GEORGE. "Conflicts of Capital and Labour." Macmillan Co., New York. \$2.50.

- JANES, L. G. "The Problem of City Government." In "Man and the State." Appleton & Co., New York. \$2.
- JENKS, EDWARD. "History of Politics." Macmillan Co., New York. 40 cents.
- JENKS, J. W. "Trusts and Industrial Combinations." U. S. Labor Department Bulletin, No. 29.
- JEVONS, W. S. "Money and the Mechanism of Exchange." Appleton & Co., New York. \$1.75.
- JORDAN, D. S. "Imperial Democracy." D. Appleton & Co., New York. \$1.50.
- LAUGHLIN, J. L. "History of Bimetallism in the United States." Appleton & Co., New York. \$2.25.
- LIST, FREDERICK. "National System of Protection." J. B. Lippincott, Philadelphia. (Probably found only in libraries.)
- LUEBOCK, JOHN. "Origin of Civilization." Appleton & Co., New York. \$5.
- MAINE, HENRY. "Popular Government." Henry Holt & Co., New York. \$2.75.
- "International Law." (Holt's.) \$2.75
- MALTBIE, M. R. "Municipal Functions." In "Municipal Affairs," (New York), for Dec., 1898. 25 cents.
- MCMASTER, J. B. "With the Fathers." Appleton & Co., New York. \$1.
- MUHLEMAN, M. L. "Monetary Systems of the World." C. H. Nicoll, New York.
- NOYES, A. D. "Thirty Years of American Finance." G. P. Putnam's Sons, New York. \$1.25.
- POLLOCK, FREDERICK. "History of the Science of Politics." Macmillan Co., New York. 75 cents.
- RAE, JOHN. "Eight Hours for Work." Macmillan Co., New York. \$1.25.
- REFORM CLUB Publications on Money and Banking. 52 William St., N. Y. City.
- RICARDO, DAVID. "Principles of Political Economy and Taxation." Macmillan Co., New York. \$1.50.
- RICHARDSON, CHAS. "Municipal Franchises." In "A Municipal Program." Macmillan Co., New York. \$1.
- ROOSEVELT, THEODORE. "American Ideals." G. P. Putnam's Sons, New York. \$1.50.

- SELIGMAN, E. R. A. "Essays in Taxation." Macmillan Co., New York. \$3.
- SHAW, ALBERT. "Municipal Government in Great Britain." The Century Co., New York. \$2.
- "The City in the United States—the Proper Scope of Its Activities." In "A Municipal Program." Macmillan Co., New York. \$1.
- STRONG, JOSIAH. "The New Era." Baker & Taylor Co., New York. 75 cents.
- SUMNER, W. T. "Protection in the United States." G. P. Putnam's Sons, New York. 75 cents.
- TAUSSIG, F. W. "Tariff History of the United States." G. P. Putnam's Sons, New York. \$1.25.
- TRUMBULL, M. M. "Free Trade Struggle in England." Open Court Co., Chicago.
- VON HALLE, ERNST. "Trusts or Industrial Combinations and Coalitions in the United States." Macmillan Co., New York. \$1.25.
- WARD, L. F. "Psychic Factors of Civilization." Ginn & Co., New York. \$2.
- WATSON, D. K. "History of American Coinage." G. P. Putnam's Sons, New York. \$1.50.
- WEBB, SIDNEY AND BEATRICE. "History of Trade-Unionism." Longmans, Green & Co., New York. \$5.
- WELLS, D. A. "Theory and Practice of Taxation." Appleton & Co., New York. \$1.50.
- WEST, MAX. "Municipal Franchises in New York." Chapter in "Municipal Monopolies." T. Y. Crowell & Co., New York. \$2.
- WHITE, HORACE. "Money and Banking." Ginn & Co., New York. \$1.50.
- WILLOUGHBY, W. W. "The Nature of the State." Macmillan Co., New York. \$3.
- WILSON, WOODROW. "The State: Elements of Historical and Practical Politics." D. C. Heath & Co., Boston. \$2.
- WOODS, R. A. "The City Wilderness." Houghton, Mifflin & Co., Boston. \$1.50.
- WRIGHT, C. D. "Outline of Practical Sociology." Longmans, Green & Co., New York. \$2.

INDEX

Agriculture, beginnings of	20, 23
Annexation	52
Arbitration	93
Autocracy, character of	9, 25
Banks and their uses	127, 143, 161
Banks of the United States, The two	139
Banking system, Canadian	151, 153
—English	146
—French	148
—German	149
—United States	141, 144
—reform of	157, 158
Bimetalism, practical experience with	127, 134
—theory of	125
“Boss” system	44
Bounties	74
Business man’s point of view	35
Charity, public and private	206
Church and state, struggle between	28
Cities,—nurseries of freedom	4
Civilization, influences affecting	2, 53
Civil service reform	43
Clearing houses, function of	138
Colonization	50, 55
Competition	87, 171
Corporations, conditions of success	172
—opportunities for young men	167
—potential competition	171
—relation of government to	164, 168
—relation to individuals	165
—relation to stockholders	165
Currency, need of elastic	157
Democracy, character of	9, 29
Educational opportunities	197, 198
“Endless chain”	159, 160
Factory legislation	177, 183
Factory system and political freedom	32
Families and tribes	19

Feudalism	26
Franchises, taxation of	108, 217
—the public's interest in	215, 219
Free trade, in England	83
—theory of	79
—universal	85
—when advisable	65
Freight rates, uniformity of	169
Gilds, influence of	3
Government, authority of	10
—forms of	21, 31
—liberty and	15
—municipal	195, 199
—paternal and protective.	13, 15
—reflects character of people.	11
—uses and duties of	11, 16
—what it is	9
Groups, progress through.	3, 4, 58
Housing of poor	202, 209
Immigration, restriction of	77
Industries, diversification of	82
—social influence of	1, 28, 32, 61, 66, 91
Insurance, labor	178
Labor; factory legislation	177, 183
—future of	192
—injunctions on strikes	186
—insurance	178
—not like capital	175
—organization of	185
—relation of government to	175, 176
Money, essential qualities of	122
—kinds of	115
—theory and practice of bimetalism.	125, 134
—value of	117, 126
—what it is	114
Monroe doctrine	54
Municipal government, importance of.	195
—root of the evils in	199
National development	1, 5
National welfare, real conditions of	80
—wage earners and	37, 39, 175
Nation, what it is	1, 4, 7
Nations, backward.	30
Nominations by petition.	46, 196
Occupations, effect on national character	1, 61, 66
Parties, political	41, 48

Paternal and protective government	13, 15
Patriotism, influence of	5
Political rights, natural or acquired	52
Political science, what it is	1
Politics, national and local	195, 200
Prices, economic law of	70
—the tariff and	69, 71
Primary reform	45, 196
Protective principle in society	58
Protective tariff, theory of	60, 63, 96
Public improvements, influence of	198
Public ownership, in England	218
—limits of	212
Public policy, test of	38
Regulation of individual action, scientific	87
Sanitary conditions	203
Savage life	18, 23
Social settlements	205, 208
Spoils system	42, 47
State, Pericles' ideal of the	6
Statesman's point of view	36
Street railways, ownership of	214, 218
Strikes, injunctions on	186
—practical remedy for	190
—"sympathetic"	189
Sub-treasury system	141
Sweatshop problem	204
Tariff and prices	69, 71
Tariff experience of United States	84
Tariff rates, problem of	63, 96
Taxation, defects of present system	98, 101, 111
—direct and indirect	98
—from what source best drawn	103, 105
—how to levy taxes	104
—objects of	96
—of franchises	108, 217
—revenue and protective	96
—shifting of taxes	105
Towns, rise of mediæval	26
Trade unions	185, 187
Tribes and families	19
"Trusts," nature of	167
Wage earners and national welfare	37, 39, 175
Wages, how determined	81
—taxation and	105
War, and growth of industrialism	91
War, causes of	90
—what may justify	93

